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**CENSUS BUREAU ACTIVITIES ON VALUATION
OF NONCASH BENEFITS**

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HEARINGS
BEFORE THE
SUBCOMMITTEE ON
CENSUS AND POPULATION
OF THE

**COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES**

NINETY-NINTH CONGRESS

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CENSUS BUREAU ACTIVITIES ON VALUATION OF NONCASH BENEFITS

THURSDAY, OCTOBER 31, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CENSUS AND POPULATION,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, DC.

The subcommittee met pursuant to call at 2 p.m. in room 311, Cannon House Office Building, Hon. Robert Garcia (chairman of the subcommittee) presiding.

Mr. GARCIA. While waiting for the arrival of Senator Arlen Specter of Pennsylvania, I will read my opening statement. Senator Specter will testify first. The next panel, of course, will be both Mr. Herriot and Ms. Chelimsky.

Good afternoon and welcome to our hearing on the Census Bureau's activities on valuation of noncash benefits. I would like to start off this hearing by saying that I have no qualms about developing a data base on noncash benefits. In fact, we do need to know how Federal programs are benefitting or not benefitting Americans, and a data base on noncash benefits would help us to do that.

However, it worries me when the Census Bureau continues to admit to problems in the methods it is using to value noncash benefits and identifies its efforts to be exploratory, but continues to publish statistics showing drastic reductions in poverty simultaneously with the official poverty rate. The fact that the Census Bureau has not placed as much emphasis on private sources of noncash benefits received by the nonpoor also concerns me. Because the Bureau's statistics are used by public policymakers and analysts, when the Census Bureau uses data on noncash benefits to estimate poverty such data must be reliable; that is, reflect the true picture of poverty in America.

We are currently surrounded by proposals to cut domestic spending. Already the poor are devastated by budget cuts. The last thing the poor needs to hear is to have the Government tell them that they no longer are poor. I have been taking strong issue in this subject matter because of the possible effect such exploratory statistics would have on policymaking for the poor.

Another area of concern regarding the Census Bureau's activities on noncash benefits is the process the Bureau has established in its research efforts. The process seems to limit participation from those who represent the poor, including the Congress. It was only when I asked the Bureau to increase the representation of the participants to its December conference that the Bureau responded.

Although the Census Bureau has been responsive to our requests to increase the representation of conference participants, it chose to have the conference in a location not easily accessible to the public. The process must be democratized in order to protect the interests of poverty stakeholders. I hope that this hearing is one way to do that. I also hope that through this hearing, we can come to a better understanding of the Census Bureau's research efforts as well as clarify our concerns to the Census Bureau.

I would like to yield to my colleague who is just joining us Mr. Myers of Indiana, if there is any opening statement he would like to make.

Mr. MYERS. Well, thank you, Mr. Chairman. I apologize for getting in a little late. Like the other body, some of us do sit on more than one committee. I apologize for getting here late, and I thank you for having these hearings.

I think just today we heard another Census research or Census Department report, and it seems like they are playing a more important role all the time. Years ago, all they did is count heads, but the Bureau certainly is very important now to our planning, as well as to the development of our resources, so thank you for having these hearings, and I welcome our witnesses today.

Mr. GARCIA. Thank you.

I would also like to ask my colleague from Utah, the ranking minority member of this subcommittee, Mr. Hansen, if there is anything he would like to say.

Mr. HANSEN. Mr. Chairman, I apologize for being late. I appreciate the opportunity of being here at this hearing. Thank you.

Mr. GARCIA. I am pleased to introduce to you Senator Arlen Specter from Pennsylvania.

When I was a State senator, Senator Specter was the district attorney in the city of Philadelphia. When I had the opportunity to go and speak at some banquet there in one of the hotels, one of the few elected officials to show up to this Hispanic meeting was the Senator. I will always remember him for that, because nobody else showed up, but he showed up, and I am deeply appreciative.

Senator Specter has been actively supporting our efforts on the Senate side, and we are grateful for his efforts. He has shown to us that the subject of noncash benefits as they relate to the measurement of poverty is not a partisan issue, but an issue to all who are deeply concerned with the plight of the poor. Senator Specter has been active in the legislative efforts establishing emergency food and shelter for the homeless, increasing unemployment insurance for those who are out of work, and seeking funds for job training programs for the unemployed.

On behalf of the subcommittee, I am particularly delighted because I know you fellows are working just as hard over there as we like to think we are working over here.

STATEMENT OF HON. ARLEN SPECTER, A U.S. SENATOR FROM THE STATE OF PENNSYLVANIA

Senator SPECTER. Thank you very much, Mr. Chairman and members of the subcommittee. I am delighted to be here.

I recall very well that event that I showed up for. I believe it is important to show up and to speak up, and that is why I am here today; to show up and to speak up on a subject that I consider to be of great importance. And I commend you, Mr. Chairman, and I commend this subcommittee for having this very important hearing.

By my presence here today, and by my formal statement, which I ask to be made a part of the record, I applaud your efforts and express in as forceful terms as I can, my concern that the work of the Census Bureau on measuring income be very, very carefully evaluated. When you deal with the disadvantaged in our society and make calculations as to what benefits are available and start to make calculations on in-kind income, the subject is very, very complex and it has to be approached in a very, very careful manner.

I recognize the independence of the Census Bureau and their need to proceed in the exercise of their own discretion. And when a Congressman, or Member of the House, or Member of the Senate expresses a sense of what is to be done, that it is advisory only. You and I have worked on this subject for some time. Our staffs have been in constant contact.

I have discussed this issue with Members of the Senate, and we are currently considering in a somewhat disjointed way, through the appropriation bill on Commerce, State, Justice, and the Judiciary, matters related to this subject. I have worked with the distinguished acting chairman of the subcommittee, Senator Rudman, on a colloquy which will be inserted into the Congressional Record which will urge the Census Bureau in the valuation of in-kind benefits to make a very careful evaluation of noncash benefits as they are included in the official income of many of the disadvantaged.

It is my sense that there ought to be input from a variety of sources: The technical experts, the general scientific community, interested citizens, congressional committees, to evaluate what is included in these in-kind benefits, because the methodology could have a very, very profound effect on the lives of the poor as calculations are made on what benefits they are entitled to.

That is the essence of my testimony, Mr. Chairman. I do have a statement which I would like to be made a part of the record.

Mr. GARCIA. Without objection.

[The statement of Senator Specter follows:]

Statement by U.S. Senator Arlen Specter Before the
House Subcommittee on Census and Population
on Thursday, October 31, 1985

Mr. Chairman and Members of the Subcommittee:

I thank you for the opportunity to testify before this Subcommittee on the matter of Census Bureau treatment of in-kind benefits.

At the outset, I would like to commend the Chairman of this Subcommittee for his outstanding efforts on this matter. His leadership and persistence in calling attention to this important subject have made a major contribution to congressional awareness of the questions posed by the Census Bureau's activities. It has been my distinct pleasure to work closely with the distinguished Chairman in recent weeks.

Mr. Chairman, few Americans realize that the vast majority of the critical policy decisions made by the U.S. Government occur far from the spotlight of publicity, deep in the bowels of the bureaucracy. While our departments, bureaus and agencies are staffed with highly professional, competent public servants, nevertheless, there is always a danger that the obscurity in which they tend to labor may lead to

decisions that are not supported by large numbers of the people they affect.

The Census Bureau's activities on the question of valuation of in-kind benefits are in danger of going down this path unless the elected representatives in the House and the Senate keep a careful eye on the process. If the results of the Census Bureau's study are somehow skewed, and then are used to determine eligibility for public benefits of any kind, the results could be devastating for some of the most vulnerable groups in our population.

So far in the 99th Congress, the debate about valuation of in-kind benefits has occurred primarily in the context of the appropriations process. The House report on H.R. 99-197 directs the Census Bureau to "...cease research and valuation efforts of noncash benefits, which are in-kind benefits received as food stamps, school lunches, Medicare, public housing, employer contributions for pension and health plans, and other forms.". Senate Report No. 99-150 on the State, Commerce, Justice bill, by contrast, reaffirms the commitment of the Congress, as expressed in Public Law 96-536, to a Census Bureau program of collecting data on participation in Federally funded, in-kind benefit programs.

The Census Bureau was set on the trail of valuation of in-kind benefits by language included in the text of a 1980 appropriations bill. As a result, the suggestion in the House report that the Bureau should cease research and valuation efforts on the measurement of noncash benefits does not appear viable. However, the legitimate concerns that have been raised regarding the methods used in determining the value of in-kind benefits, as well as the extent to which specific noncash benefits are included in the official income data series of the Census Bureau, must be addressed. I believe it is important that, until the many conceptual and empirical problems associated with the valuation of in-kind benefits are resolved, the Census Bureau carefully distinguish between studies of such income and official income data series. I would also be seriously concerned about any effort by any agency to determine program eligibility, benefit levels, program allocations, etc., on the basis of such relatively untested data.

Moreover, in carrying out Congress' mandate to study in-kind benefits as income, the Census Bureau should be encouraged to obtain advice not only from technical experts, but also from the general scientific community, interested citizens, and congressional committees that care to participate.

When the State, Commerce, Justice bill returns to the Senate floor, I intend to take steps, in cooperation with the distinguished floor manager of the bill, Senator Rudman, to make clear that the Senate shares many of the House's concerns about valuation of in-kind benefits. I hope and believe that the Census Bureau will be responsive to these concerns. Since Congress began the Bureau's activities in this area, it is entirely appropriate for Congress to give additional guidance to Bureau officials in the conduct of this work.

Mr. Chairman, thank you for the opportunity to testify on this matter today. I look forward to continuing to work with you in the weeks ahead.

Senator SPECTER. The most important thing that I have to express by my presence here is my support for your efforts, and my concern that we really be fair about these evaluations.

Mr. GARCIA. Well, Senator Specter, just let me thank you very much because you are absolutely correct. Your staff and my staff have been in communication throughout this entire issue since the issue was brought to the surface.

I hope the people who are here who are with the Bureau of the Census understand that what we are trying to do is not something of a political nature, but one of fairness. And that's all I think we are all looking for—fairness. I think the presence of the Senator from Pennsylvania, Senator Specter, as one of the participants on the Senate side on this issue, that you would leave here understanding that all we are looking for is fairness.

Senator, I just can't thank you enough for taking your time to be with us today, and I would like to see if my colleague from Utah would like to add anything.

Mr. HANSEN. I just want to agree with what the chairman said, and thank the Senator for coming, and I appreciate your excellent remarks. I look forward to your statement in depth.

Senator SPECTER. Thank you very much, Congressman Hansen.

Mr. GARCIA. Colleague from Indiana.

Mr. MYERS. Well, thank you, Mr. Chairman. I, too, join my colleagues in welcoming the Senator here. It isn't often where the two bodies can agree on something. Recently we have found that to be true, so it is refreshing to find that we find some common ground here that we both share. And you are absolutely right that this is an area that is most vital today, and unfortunately it is an area that is growing, too, in magnitude and size, so maybe collectively we can help alleviate some of the problems, some of the suffering, and look at it more objectively.

Senator SPECTER. Congressman Myers, in smaller groups we would have more agreements.

Mr. MYERS. I don't know. I am a Republican, too, and we have a small group, and we don't always have agreement.

Mr. GARCIA. Thank you very much.

Senator SPECTER. Thank you very much.

Mr. GARCIA. Our panel, now, is comprised of Mr. Roger Herriot, the Chief of the Population Division, who will update us on the Census Bureau's activities and from the General Accounting Office, Ms. Eleanor Chelimsky, Director of the Program Evaluation and Methodology Division, who will update us on the General Accounting Office's work evaluating the Census Bureau's activities. Roger, why don't you start.

STATEMENTS OF ROGER A. HERRIOT, CHIEF, POPULATION DIVISION, BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE, ACCOMPANIED BY GORDON GREEN

Mr. HERRIOT. Good afternoon, Mr. Chairman. I thank you for the opportunity to testify about the Bureau of the Census' efforts to collect and analyze data on noncash benefits. In your letter inviting me to testify, you asked me to respond to five specific concerns.

With your permission, I will submit my full written testimony for the record and will summarize those remarks at this time.

Your first concern was about the Census Bureau's efforts on evaluating the validity of the methodologies currently being used to value noncash benefits. This work was developed by Prof. Timothy Smeeding, who did the first work in this area at the Census Bureau.

It is very difficult to evaluate the validity of different valuation methods, because the different methods may be appropriate for different uses. This can clearly be seen with the three valuation methods developed by Professor Smeeding. For example, some economists feel that the market value may be the most appropriate approach for looking at the distribution of Government transfers, because it estimates the amount actually distributed to individuals.

Some economists believe the cash equivalent value may be the most appropriate measure for looking at the effect of noncash benefits on perceived economic well-being because it attempts to estimate the recipient's own valuation of the benefit. And, finally, some feel that poverty budget shares value may have advantages for looking at the effect of noncash benefits on poverty, because it is tied to the level of need implied by the poverty concept.

Other economists, however, disagree with these views. In fact, there is no consensus of opinion on the most appropriate methods used. A question of validity may also be raised about the issue of what should be included in the definition of income.

You have raised this issue, Mr. Chairman, concerning the valuation of medical care benefits. Professor Smeeding and the Census Bureau have also recognized the special problems associated with the treatment of medical care. That is why we have shown our valuations according to several classifications, both excluding and including medical care benefits.

Aside from these difficult conceptual issues concerning validity, there are also issues about the adequacy of the methods and data used to construct the estimates. We concur with the GAO that independent evaluation is needed for a balanced assessment of these estimates. To this end, we have had our procedures reviewed in several ways.

First, methods and procedures developed by Dr. Smeeding were examined by four experts prior to the completion of the technical paper. Many of their recommendations, comments and criticisms are reflected in the report. The report contains a detailed discussion concerning conceptual and measurement issues associated with each estimation procedure.

Second, the valuation methods and procedures were reviewed by three Census advisory committees and were the subject of a paper presented at the Census Bureau's annual research conference. Third, the Census Bureau planned to convene a panel of experts in the late summer of 1984 for the purpose of reviewing the valuation methods outlined in the report. However, that review did not occur. Our December conference on the measurement of noncash benefits was designed for this same purpose.

Concern No. 2 relates to the current status of the Census Bureau's research and publication efforts on the valuation of noncash benefits. We have now published four technical papers on this sub-

ject. During the past 2 years, the technical papers containing the estimates have been released simultaneously with official income and poverty estimates.

We have done this in order to provide policymakers and other data users with the most timely and comprehensive set of relevant data possible. We also believe that simultaneous release helps the public avoid confusion in interpreting a full range of statistics for a given year. Although the technical paper estimates have been released at the same time as official estimates, we have emphasized the experimental nature of the technical estimates.

The estimates we have published thus far have been based on Professor Smeeding's work and on the review of that work by the previously mentioned experts. We have generally followed that original methodology to present basic methodology for examination by the community of data users. We are also examining methods to value employer-provided noncash benefits which I will discuss shortly.

Many of the concerns raised about the estimates deal with the definition of poverty and are out of the scope of the Census Bureau's program. Serious work on many others require new or improved sources of data. Over the past several years, the Census Bureau has devoted a great deal of resource to such activities as the Survey of Income and Program Participation and to assessing data in the economic censuses.

Many other concerns could have been researched by the Census Bureau and also by others using publicly available data. However, we believe that rather than attempting to examine a multitude of issues, it is better to seek some consensus about methods. This will allow us to narrow the alternatives and focus on the needed research. We expect that the December conference will help us set priorities for future work in the valuation of noncash benefits.

Your third concern was about the status of plans for the conference on the measurement of these benefits to be held in December of this year. The Census Bureau has asked recognized experts to present papers on major issues to be explored at the conference. We have also asked other experts to act as discussants for each paper.

The four topics covered by these papers are: What types of non-cash benefits and cash receipts should be included in the Census Bureau's definition of income? What are the most appropriate methodologies for valuing various noncash benefits. If income is defined to include noncash benefits, what are the issues of data comparability for current income and poverty measures? And fourth, what are the implications for Federal laws requiring the use of poverty data in allocating funds to State and local areas.

Letters of invitation have been sent to about 150 persons representing a wide variety of academic, private sector, Government researchers, as well as representatives from public interest groups, and interested congressional committees. We have prepared and provided to you the preliminary outline of the conference agenda, and we will have a final agenda available shortly.

After the authors and discussants are finished with their presentations, there will be ample opportunity for comments and discussions from the other participants. After the conference, the Census

Bureau will prepare a summary of the proceedings and make it available in published format.

Your fourth concern inquired about the Census Bureau's plans for research on private sources of noncash income: Noncash income from private sources is largely from employer-provided programs, and these programs are quite diverse, offering varying levels of benefits.

They range from very common ones like employer-provided health and pension plans to less common ones like company cars and even country club memberships. One of the first steps the Census Bureau took in this area was to include questions on the March CPS as to whether or not workers had health insurance for pension plans paid for entirely or in part by their employers or union. This data had been collected and published since 1980.

All of these data, however, relate to reciprocity and not to the value of specific benefits. More information about employer-provided benefits is collected in the Survey of Income and Program Participation. These include not only the health insurance and pension plans, but also life insurance, expense accounts, the use of company cars and trucks, receipts of free meals or lodging, and the availability of free or discounted goods or services.

Some research has been started on valuing noncash benefits from employers. A paper on this subject was presented by a Census Bureau economist at our first annual research conference. Plans call for an expansion of this research in the future. We have recently acquired the Bureau of Labor Statistics 1977 data file on employer expenditures for employee compensation.

While this source is dated, we think it will serve as a foundation for a current data base on employer-provided benefits. Another promising approach concerns linking files from the economic census to the SIPP survey. Economic censuses contain information on expenditures which employers make for fringe benefits. SIPP contains information on the reciprocity patterns of workers who receive such benefits. This work on privately provided noncash benefits is very complex and very computer intensive. It cannot be accomplished relatively quickly. As progress is made, however, we will report to the user community so as to benefit from their comments and criticisms.

The final concern related to the Census Bureau's research effort on improving income and poverty statistics. We are always working to improve the quality and the usefulness of our income statistics. The most significant development in this area has been the initiation of the Survey of Income and Program Participation in October 1983.

SIPP was designed to provide more accurate income statistics not available from CPS, in addition to providing data for longitudinal analysis. Results indicate significant improvement in the quality of the income statistics in a number of dimensions.

We have also continued our efforts to improve annual income data obtained from the Current Population Survey. We have been working on many projects in several areas which are discussed in my written testimony.

I have not specifically mentioned the poverty estimates in this section because we are responsible for the collection of income

data and providing the best estimates of income distribution. We are not responsible for examining the definition of the thresholds that are used to derive the official poverty estimate. To the extent that we can provide more accurate income estimates, the estimates of persons below poverty will also be improved.

Thank you, Mr. Chairman, that concludes my testimony for today. I'll be happy to answer any questions.

[The statement of Mr. Herriot follows:]

U.S. DEPARTMENT OF COMMERCE
Bureau of the Census
Statement of
Roger A. Herriot, Chief, Population Division

Before the
Post Office and Civil Service Committee
Subcommittee on Census and Population
U.S. House of Representatives
October 31, 1985

Good morning Mr. Chairman. I thank you for the opportunity to testify about the Bureau of the Census's efforts to collect and analyze data on noncash benefits received by households in the United States. Each year the U.S. government has spent billions of dollars on social programs such as food stamps, public housing, Medicare, and Medicaid. Private sector employers also spend billions providing noncash benefits such as health insurance and pension plans to a large proportion of the 106 million working Americans. These public and private noncash benefits are important in assessing the level of well-being of our population, but there is no official method that permits these important benefits to be counted in the income distribution statistics. The Census Bureau's noncash benefit research work has been directed toward developing procedures that will allow these benefits to be valued.

In your letter inviting me to testify you asked that I respond to five specific concerns. The remainder of my testimony will be devoted to those responses.

Concern number 1

Census Bureau's efforts on evaluating the validity of Smeeding's methodologies currently being used to value noncash benefits;

Census Bureau's reply

It is very difficult to evaluate the validity of different valuation methods, because different methods may be appropriate for different uses. This can be seen very clearly with the three valuation methods developed by

Professor Timothy Smeeding, who did the original work in this area. For example, some economists feel that the market value may be the most appropriate approach for looking at the distribution of government benefits because it estimates the amount actually distributed to individuals. Some economists believe that the cash equivalent value may be the most appropriate measure for looking at the effect of noncash benefits on perceived economic well-being, because it attempts to estimate the recipient's own valuation of the benefit. And finally, some feel the poverty budget share value may have advantages for looking at the effect of noncash benefits on poverty, because it is tied to the level of need implied by the poverty concept. Other economists disagree with these views and, in fact, there is no consensus of opinion on the most appropriate methods to use. These are some of the issues that will be discussed at the forthcoming conference on noncash benefits in Williamsburg, Virginia on December 12-14, 1985.

The question of validity also may be raised about the issue of what to include in the definition of income. You have raised this issue, Mr. Chairman, concerning the valuation of medical care benefits. Professor Smeeding and the Census Bureau have also recognized the special problems associated with the treatment of medical care. That is why we have shown our valuations according to three classifications: food and housing benefits only; food, housing and medical care excluding institutional benefits; and food, housing, and medical care including institutional benefits.

Aside from these difficult conceptual issues concerning validity, there is also the issue of the adequacy of the methods and data used to construct the estimates. To this end, we have had our procedures reviewed in several ways.

First, the methods and procedures developed by Dr. Sneeding were examined by four experts prior to completion of the technical paper. These experts were Dr. Edgar Browning of the Texas A & M University, Dr. Morton Paglin of Portland State University, Dr. Eugene Smolensky of the University of Wisconsin, and Dr. Sheldon Danziger also of the University of Wisconsin. Many of their recommendations, comments, and criticisms are reflected in the report. In addition, the report contains discussions concerning the conceptual and measurement issues associated with each estimation procedure. Second, the valuation methods and procedures were reviewed by three of the Census Advisory Committees and were the subject of a paper presented at the Census Bureau's Annual Research Conference. Advisory Committee members are recognized experts in such fields as economics, statistics, and demography. Their review yielded comments and criticisms; however, no consensus was reached concerning the validity of the valuation techniques. Third, the Census Bureau planned to convene a panel of experts in the summer of 1984 for the purpose of reviewing the valuation methods outlined in the report. However, that review did not occur. Our December Conference on the Measurement of Noncash Benefits to be held in Williamsburg, Virginia, is designed for this same purpose.

It will allow persons outside the Census Bureau to review the methodologies currently used in our noncash valuations and to suggest development of improved definitions of income for purposes of measuring economic well-being.

Concern number 2

Current status of the Census Bureau's research and publication efforts on valuation of noncash benefits;

Census Bureau reply

We have now published four technical papers that contain alternative estimates of the number of persons in poverty when dollar values are placed on certain kinds of Federal and State benefits. During the past two years the technical paper containing such estimates has been released simultaneously with the official income and poverty estimates. We have done this in order to provide policy makers and other data users with the most timely and comprehensive set of relevant data possible. We also believe that simultaneous release helps the public avoid confusion in interpreting the full range of statistics for a given year. Although the technical paper estimates have been released at the same time as the official estimates, we have emphasized the experimental nature of the technical paper estimates.

Our technical paper series was not designed to be a vehicle for the regular reporting of an economic statistic. We plan to evaluate our publication policies to ensure that the best methods are used to disseminate both our official estimates and our research results.

Our publication policy will be guided by the findings of our research activity, by our continuing contact with the user community, and by the results of the December conference.

The estimates that we have published thus far have been based on Professor Smeedings' work and on the review of that work by the four previously mentioned experts. Our own staff has presented that work and has tried to prepare reports that explain clearly the assumptions and methods that underlie the estimates. We have generally followed the original methodology. In our view, our main task now is not to make minor changes

in the original methodology, but to present the basic methodology for examination by the community of data users. We are also focusing our attention on the valuation of employer-provided noncash benefits, which I will discuss shortly. We expect that the conference will help us develop valuation methods and publication policies that will help us meet our responsibility to provide comprehensive and accurate information on economic well-being.

Concern number 3

Current status of plans for the conference on measurement of noncash benefits to be held in December of this year;

Census Bureau reply

The planning for the Conference on the Measurement of Noncash Benefits is well underway. The Census Bureau has asked recognized experts to present papers on the four major issues to be explored at the conference. We have also asked other experts to act as discussants for each paper. Following is a list of the topics and the names of authors and discussants for each paper:

1. What types of noncash benefits and cash receipts should be included in the Census Bureau's definition of income?

Authors: Lawrence Summers and David Ellwood (Harvard)

Discussants: Albert Rees (Sloan Foundation)
Alan Klinder (Princeton)

2. What are the most appropriate methodologies for valuing various noncash benefits?

Author: Barry Chiswick (Stanford)

Discussants: Edgar Browning (Texas A&M)
Henry Aaron (Brookings)

3. If income is defined to include noncash benefits, what are the issues of data comparability for the current income and poverty measures?

Author: Michael Ward (Unicon Research Corp.)

Discussants: Sherwin Posen (University of Chicago)
Eugene Smolensky (Institute for Research on Poverty)

4. What are the implications for Federal laws requiring the use of poverty data in allocating funds to states and local areas?

Authors: Eric Hanushek and Robertson Williams (Congressional Budget Office)

Discussants: Kenneth Clarkson (University of Miami)
Wendell Primus (House Ways and Means Committee)

Letters of invitation have been sent to 150 persons representing a wide variety of academic, private sector, and government researchers, as well as representatives from public interest groups and interested Congressional committees (see attached sample letter of invitation and list of invitees). We have prepared an outline of the conference agenda (see attached copy) and will have a final copy available shortly. The conference will be held in Williamsburg, Virginia, December 12-14. After each author and discussant are finished with their presentation, there will be ample opportunity for comments from the other participants. As requested a complete record of the sessions will be provided to you and to the General Accounting Office. After the conference the Census Bureau will prepare a summary of the proceedings and make it available in published format.

Concern number 4

Census Bureau's plans for research on private sources of noncash income;

Census Bureau's reply

As discussed earlier, most of the Census Bureau's research on valuing noncash benefits has focused on those benefits coming from the Federal government and received by the poor. This focus has been at the direction of the Congress. Recently, our research has expanded to cover the various noncash benefits coming from the private sector and received mainly by middle and upper income groups, or the "nonpoor." The noncash income received by the poor tends to come from Federal government programs that provide uniform benefits. The noncash income received by the nonpoor is largely from employer-provided programs and these programs offer varying levels of benefits. In addition, these programs cover a variety of areas. They range from the very common ones like employer-provided health insurance and pension plans to the less common, like company cars and country club memberships.

One of the first steps the Bureau took in this area was to include questions in the March CPS as to whether or not workers had health insurance or pension plans paid for entirely or in part by their employer or union. This was done in March 1980--and every March since then. The data have been published regularly in the Bureau's report Characteristics of Households and Persons Receiving Selected Noncash Benefits along with the data on noncash benefits provided by the Federal government. All of the data in these reports, however, relate to reciprocity and not the value of the specific benefit.

The Census Bureau also collects information about a number of employer-provided benefits in the Survey of Income and Program Participation (SIPP).

These include not only health insurance and pension plans, but also life insurance, expense accounts, the use of company cars or trucks, the receipt of free meals or lodging, and the availability of free or discounted goods and services.

Some research has been started on valuing the noncash benefits received from employers. A paper on this subject was presented by a Census Bureau economist at our First Annual Research Conference held in March of this year. It discussed a general methodological approach and presented some illustrative estimates of the value of a few common benefits.

Our plans call for an expansion of the research dealing with valuing noncash benefits. We have recently acquired the Bureau of Labor Statistics' (BLS) 1977 data file on employer expenditures for employee compensation. While this is an old data source (the last of a series of surveys conducted by BLS), we think it will serve as a foundation for a current data base on employer-provided noncash benefits. We are exploring other data files both inside and outside the Bureau which may be of help in our valuation work. One promising approach involving our own data concerns linking files from the economic censuses and the SIPP. The economic censuses contain an abundance of information on the aggregate expenditures of employers make for various fringe benefits and the SIPP contains information on the reciprocity patterns of workers who receive benefits.

Ultimately, our plans call for the imputation of the value of noncash benefits received by each person on either a CPS or SIPP data file or both. The basis for the imputation procedures will be the various data sources

that we are now examining. This work is very complex and computer intensive, however, and cannot be accomplished quickly. As progress is made, we will report to the user community so as to benefit from their comments and criticism.

Concern number 5

Census Bureau's research efforts on improving income and poverty statistics.

Census Bureau's reply

We are always working to improve the quality and usefulness of our income statistics. The most significant development in this area has been the initiation of the longitudinal Survey of Income and Program Participation (SIPP) in October 1983. Data from this survey will, for the first time, allow researchers to longitudinally trace changes in income and program participation and study the reasons for these changes. While the Current Population Survey (CPS) has provided us with very valuable annual income data for the past 30 years and is currently the source of the official estimates of poverty, it is basically a labor force survey and is not designed to track changes in income and program participation.

The SIPP was designed to provide more accurate income statistics than available from the CPS, in addition to providing data for longitudinal analysis. Results from SIPP indicate some significant improvement in the quality of the income statistics. In comparison with the CPS, SIPP data for many income sources are of higher quality, with less nonresponse and more accurate income amounts reported, although underreporting is still a source of error in the SIPP estimates.

Even though SIPP is now a major source of income statistics we have continued our efforts to improve the annual income data obtained from the CPS. We have been working on projects in several areas. First, we have conducted special interviewer training sessions each year prior to the data collection effort. Second, we have developed and disseminated materials that are designed to improve respondent cooperation by explaining the important purpose of our surveys. Third, we have evaluated the procedures used to assign values for missing survey responses and have initiated modifications that improve the quality of these assignments. Fourth, we have evaluated other aspects of the estimation procedures such as the weighting of survey results to population control totals. Recently we revised these procedures to obtain improved estimates for persons of Spanish-origin. Finally, we have expanded the uses of the CPS income data by developing estimates of after-tax income and discretionary income.

I have not specifically mentioned poverty estimates in this section because we are responsible for collecting income data and providing the best possible estimates of the income distribution. We are not responsible for examining or defining the thresholds that are used to make the official poverty estimates. To the extent that we can provide more accurate income estimates, the estimates of persons below the poverty level will also be improved.

Thank you Mr. Chairman, that concludes my testimony for today.

Mr. GARCIA. Thank you, Mr. Herriot.
Ms. Chelimsky.

**STATEMENT OF ELEANOR CHELIMSKY, DIRECTOR, PROGRAM
EVALUATION AND METHODOLOGY DIVISION, U.S. GENERAL
ACCOUNTING OFFICE, ACCOMPANIED BY DAVID CORDRAY
AND WILLIAM SCARBOROUGH**

Ms. CHELIMSKY. Thank you, Mr. Chairman. Good afternoon, Mr. Chairman, members of the subcommittee. I would like to invite two of the folks that have been working on our study to come up to the table here with me. This is Dr. David Cordray, who is the study director of our evaluation on methods for valuing noncash benefits, and over here is the project manager for the study, who is Dr. Bill Scarborough.

We thought we would bring you up to date this afternoon on where our study is and what we are doing. You have the statement that we have presented. What I thought I would do is simply give you a few of the highlights from that statement.

Mr. GARCIA. We will submit your statement for the record.

Ms. CHELIMSKY. Thank you.

Mr. GARCIA. And the committee is appreciative.

If you will summarize, we can get into the questions and answers.

Ms. CHELIMSKY. Thank you, sir.

As you remember, this subcommittee asked the GAO to examine the technical concerns that had been raised with regard to the Bureau of the Census' effort to value noncash benefits, and to identify for the Congress the questions that need to be asked to evaluate the fairness and the technical adequacy of the Bureau's methods.

What we are interested in essentially, I think, in this evaluation is in finding out first whether the individual methods for valuing noncash benefits distort the estimates that are based on them. Second, if they do distort them, how big are the distortions? And, finally, what is the influence of these distortions on the poverty rate?

Since the last time I reported on this study, Mr. Chairman, I think we have made some progress. We have now identified 52 technical concerns that have been raised about the Bureau's three methods, which are, of course, market value, recipient value, poverty budget share, and about four other tightly related issues, the definition and measurement of poverty, the definition and measurement of income, the poverty threshold and valuation methods in general.

We have developed a classification scheme for these technical concerns that characterize them as conceptual, operational and computational. If you turn to tables 1, 2, and 3 in the statement that we provided you, you will find these concerns laid out—I think it is page 5(a), something like that. You will find the concerns laid out one by one. So we feel we can now speak cogently to the number of problems that have been identified in the publicly available literature.

We can address their nature. We have an idea of some of their expected effects, and we have researched again in the publicly available literature, what the Bureau has done about them. So that is where we are in our study, and on the basis of this work, then, which is not yet completed, let me make three points.

First, the 52 technical concerns we found indicate a fair level of discomfort and little consensus on the appropriateness of the Bureau's methods. But while the concerns have been raised, not much has been done about them; that is, we found a great paucity of the kind of independent reanalysis, not review, but reanalysis that is needed, first, to inform potential users on the seriousness of those concerns, and, second, to try to resolve them.

What this tells us is that further evaluation is an absolute necessity. Second point, the conceptual, operational, computational classification scheme I just mentioned seems to be a fertile one. While it shows that there has been lopsided attention devoted to some types of concerns versus others, we think the scheme gives us a good starting point for developing an overall framework with which to evaluate the three methods systematically. It doesn't give us the framework, but it gives us the starting point.

In addition, the scheme focuses attention on specific types of possible distortions that we think are likely to have nontrivial effects; such as (a) distortion of a methods concept through its measurement (a prime example there would be the value of the benefit to a recipient being measured by so-called normal expenditures which may or may not be the same thing as what the recipient would value); (b) distortion of the method's execution through problems of data quality, and you can see in table 2, how very many technical concerns have been raised about the issue of data quality; and (c) distortion of a method's outcome through the computational procedures used by the method to represent the benefits. For example, using an average rather than a median, as I pointed out to you in my last testimony, can distort the value of the medical benefit.

Third and last point: Based on the number of technical concerns that have been raised, and especially given that the Bureau itself raised 36 of those concerns in its 1982 paper, technical paper 50, we would have expected to see the Bureau focus on exploring the extent of these problems and seeking to resolve them.

Now, the Bureau has done some work, and I certainly don't want to minimize that; we have heard mention of that in their testimony today and particularly work relating to SIPP, that is the survey on income and program participation. But the fact is that of the 52 concerns that we have mentioned here today, we know of only one that has actually been examined empirically and reported in the Bureau's technical paper series. This is on underreporting of income.

This seems to us a problem when taken in conjunction with the fact that the Bureau has stated that until final decisions are made, they will continue to publish annually the same estimates that are so riddled with controversy. Because if the concerns aren't assessed, and their empirical effects examined, then how can it be determined what their importance is? And how will the evidence be obtained to make the decisions the Bureau is asking for?

Now empirical testing may be difficult, but it is feasible in many cases. Our view is that the Bureau itself is in the best possible position to conduct the empirical assessments needed, although we would again want to see researchers outside the Bureau reanalyzing and validating the Bureau's work. We hope that the Bureau's December conference will give some impetus to the kind of activity we are talking about: The need to confront technical concerns, not just list them, but confront them, the need to evaluate effect sizes and the need to modify procedures in consequence.

As things stand now, technical concerns were raised 3 years ago and users of the Bureau's publications are still left wondering about the size, the scope, the importance of these concerns and about the qualifications they imply with regard to the Bureau's estimates.

Thank you, Mr. Chairman. We would be very happy to answer any questions you may have.

[The statement of Ms. Chelimsky follows:]

STATEMENT OF

ELEANOR CHELIMSKY

DIRECTOR, PROGRAM EVALUATION AND METHODOLOGY DIVISION
Mr. Chairman and Members of the Committee. It is a

pleasure to be here today to report on the work this Subcommittee has requested the General Accounting Office to undertake--that is, the development of a methodology for evaluating proposed changes to poverty indicators and thresholds. In particular, you requested an assessment of the methodological underpinnings of the procedures for valuing noncash benefits such as food, housing, and health care. For part of this effort, we have examined methods that have been applied in the past to assess changes in components of this extremely important indicator of national well-being. Today, I want to bring you up to date on the status of our work.

Specifically, I would like to describe the extent to which technical concerns have been raised on the issues and methods related to valuing noncash benefits; the nature of these concerns which we characterize as conceptual, operational or computational; and some tentative conclusions about results from our work to date.

To begin with, let me provide a bit of background. In 1980, the Congress urged the Bureau of the Census to develop procedures for representing the value of federally funded noncash benefits (such as Medicaid and food stamps) in its poverty assessments. In 1982, the Bureau published the first of several reports that illustrate how selected noncash benefits can be represented in the calculation of annual poverty rates. This work, known as Technical Paper 50, or TP 50, illustrated how the official poverty indicator based on income could be

augmented by including selected noncash benefits, which were valued by three methods (market value, recipient value, and poverty budget share).

It is clear from TP 50 and subsequent Bureau reports that how income is defined and the choice of one method over another make a real difference in conclusions about how many people are in poverty. In fact, the poverty rates in 1979 can range from 6.8 to 11.7 percent, depending on how income is defined and which method of valuing noncash benefits is selected. However, as we testified on April 18, 1985, our preliminary work revealed a number of areas in which the procedures used for each valuation technique may be subject to technical errors and may have a distorting influence on poverty indicators and thresholds. These errors could affect the poverty classification or eligibility of large numbers of individuals and families.

In April, we were able only to illustrate, in a preliminary way, some of these technical concerns. Our work since then has been aimed at mapping more comprehensively the extent and nature of the technical questions involved. While this work is still incomplete, we can now speak to the number of problems that have been identified, the nature of these problems, how they are believed to affect the three different methods for valuing noncash benefits, and what the Bureau has done about them. Our review at this point is based primarily on publicly available documents. As a result, it may not fully represent either all the issues or all the work already done or begun on these

issues. In addition, because our analysis is not yet complete, we have not had the opportunity to discuss the concerns raised with appropriate agency officials. Because of the urgency of identifying technical errors as soon as possible, we have chosen to focus first on problems and then later to assess strengths. Examining the qualities and limitations of past work is essential, of course, in developing a method for evaluating new approaches to valuing noncash benefits.

The Magnitude of Technical
Concerns Relative to Valuing
Noncash Benefits

TP 50, the Bureau's first publication on the three methods, appeared in 1982. Since then, the Bureau has published three additional reports: TP 51 in February 1984, TP 52 in August 1984, and TP 55 in August 1985. In these reports, the Bureau has been properly careful to point out and reiterate the strengths and weaknesses of its procedures. In particular, it has raised many issues it believes may create problems in interpreting the poverty indicator. This type of self-critique is both unusual and admirable; it is also essential in uncharted areas such as this and represents exemplary practice on the part of the Bureau. However, self-critique is not enough. Independent evaluation is also an obvious requirement for a balanced assessment of the Bureau's approach and progress.

We have identified, in addition to these publications, more than 75 publications by non-Bureau authors representing colleges and universities, other government agencies, private research

firms and special interest groups. Looking across all these, we found that the authors have raised technical questions not only about the three Bureau methods (market value, recipient value, and poverty budget share) but also about four crosscutting topics. These four topics are valuation methods in general, the definition and measurement of income, the definition and measurement of poverty, and the poverty threshold. I should point out, however, that few of these independent authors raised direct questions about the Bureau's methods. In most cases, they discussed the valuation of noncash benefits but abstained from direct analysis of the Bureau's approaches.

What do we mean, then, by "direct questions"? To illustrate, we testified earlier that about 28 percent of all Medicare payments are accounted for as services rendered to persons who die within a 12-month period. Since the valuation method for medical benefits assigns an average benefit level to all program participants, the extensive and expensive services provided to those who are in the terminal period of their lives are "credited" to the well-being of all participants, many of whom may have received no actual services during the 12 months. This should, we think, raise the direct question, What are the consequences of using average versus actual benefits received, in valuing Medicare benefits?

But as I noted earlier, we have found few detailed technical criticisms of the Bureau's reports published by independent analysts. The exceptions include Beeghley (1984), who argued that the Bureau's valuation methods count income

twice, implicitly use two different definitions of income, and result in findings that are illogical and unrealistic. Included also is a publication by the Congressional Budget Office (CBO, 1985), which has directly criticized the Bureau's methods. CBO also points out that thresholds are set improperly (i.e., they overstate needs based on normal expenditures of low-income households) and the basic concept of a poverty rate cannot measure degrees of poverty.

Putting together questions such as these from all sources--the Bureau, others, and ourselves (that is, GAO)--we have identified as many as 52 different concerns. Let me stress that we are counting the issues that have been raised, not the number of times they have been raised. That, of course, would be a much larger number. And let me stress that the Bureau itself has reported more than half of the published concerns.

The fact is, then, that despite the paucity of independent technical review of the Bureau's proposed changes, 52 different concerns have been raised. This tentative finding indicates two things: consensus has not been established in the publicly available literature about the appropriateness of the Bureau's methods and further evaluation is a necessity.

How Can We Characterize These Concerns?

These concerns can be roughly grouped into three types: conceptual, operational, and computational. Looking first at the conceptual concerns, we find that these mostly reflect issues of definition or perspective. For example, one conceptual concern has to do with the market value technique and

the possibility that it may overvalue the worth of a benefit, particularly medical benefits for the elderly.

In all, about 44 percent of the concerns we found (that is, 23 of the 52) are conceptual. These are listed individually in table 1. Conceptual concerns almost always have serious implications, because they suggest that choices of what is being measured and how to assign values can yield misleading information if the different consequences of these choices have not been carefully examined.

Turning next to operational concerns, we find that these mostly involve questions of sound practice in data collection. One example of operational concerns involves the "cell-matching procedure" used to estimate "normal" expenditures in the recipient value method. The cell-matching procedure involves tabulating the expenditures of selected groups of unsubsidized recipients on some commodity and assigning these values to "matched" respondents to the Current Population Survey who receive the subsidized commodity. The cell-matching procedure used may thus risk selectivity bias--that is, instead of estimating normal or typical expenditures, it may be exaggerating larger or smaller expenditures. Another example of the operational concerns is that underreporting income in the data bases that are currently used may lead to considerable error in the poverty rates built on these data bases. Specifically, underreporting may differ notably for different population subgroups but this may not be reflected in the overall rate of underreporting.

In our analysis of this type of question, we found that about 44 percent of the concerns (that is, 23 of the 52) deal with operational concerns. These are listed in table 2. The reasons these operational concerns are important is that they can account for serious distortions in the rates that are eventually reported. That is, as a result of dubious procedures for obtaining information, poverty indicators can misrepresent what is actually happening, even though the right things are being assessed.

Turning last to computational concerns, we find that these mostly involve issues in how data are analyzed. For example, one computational concern is the procedure used to replace negative subsidy values, found when subtracting subsidized housing rents from estimated market rents, with zero values. Another computational concern derives from the fact that the cell-matching procedure used in the recipient value approach suppresses typical variability; this makes benefit values seem more homogeneous than they may actually be.

In all, only about 12 percent of the concerns (that is, 6 of the 52) deal with computational issues. These are listed in table 3. The reason we think they are important is that they can cause systematic distortions in analyses of who is most affected by changes in the way poverty is estimated. Also, computational issues can be treacherous in that they are, at times, both highly technical and relatively difficult to detect.

Do the Proposed Methods Differ
in the Type of Concern
Associated with Them?

At this stage of our work, we cannot yet report to you on how serious these concerns may be, how much they may affect the different topics and methods, or in what order of priority they should be considered. We have noted that some of the 52 concerns are associated more with one method or topic than others are, as you can see from table 4. From a look at the table, it is clear that the fewest concerns--only 2--have thus far been raised about the poverty budget share method, and the greatest number of concerns--13--have been expressed about the definition and measurement of income. However, we also know that the seven methods and topics in table 4 have not equally received independent, critical attention. So a first point about this table is that it may reflect not real priorities but only variations in the evaluation that has been devoted to each of the methods and topics.

A second point from the table is that it shows variation, as well, in the type of concern about different methods and topics. It is mostly operational questions that have been raised about the recipient value method and valuation methods in general. The definition and measurement of income have drawn both conceptual and operational questions. And the poverty threshold has elicited primarily conceptual attention.

But let me emphasize again that the table reflects the concentration of attention and analysis to date. It does not

reflect our conclusions about the seriousness of the concerns or about which methods and topics should be given the greatest scrutiny. Indeed, we are as much troubled about the categories for which no concerns or very few concerns have been raised as we are about those that are filled with concerns.

For example, the results from the market value method are widely used and reported in estimates of poverty rates that include noncash benefits. But it appears that few researchers have raised technical concerns about the very difficult issues in assessing the computational strengths and limitations of this approach. In our future work, we will attempt to determine whether few concerns have been identified for a particular cell because there are none or because of neglect.

This means that our analyses will have to examine, one at a time, all the concerns raised to date so that they can be ranked for priority according to their seriousness and ease of resolution. Since our work involves a systematic study of the conceptual, operational, and computational issues related to the seven topics and methods, it is more than likely that we will identify some new concerns. However, we will be examining the strengths as well as the weaknesses of the methods and topics in order to put the concerns in a more comprehensive context and determine their relative importance.

Is Empirical Assessment Feasible?

It is intuitively obvious that some of the 52 concerns are likely sources of error. One example may be data quality (items 8 through 11 in table 2). Other concerns may seem

somewhat more arcane, and it may be harder to get a sense of how serious they are. In our opinion, a good way to assess the importance of a concern is to make an empirical analysis of its consequences. For example, when we see the range within which the poverty indicator may be expected to fluctuate as the result of a particular concern, we can get a sense of how important attention to the individual method may be.

We have not found many instances of the empirical analysis of these questions. In our view, we think it would have been both feasible and useful to have conducted such analyses. Indeed, the bulk of the critiques we have reviewed have not only raised few direct questions, as I have already noted; they have also performed few reanalyses. Their essential function has been to raise points of potential shortcomings.

However, we have been able to locate some empirical analyses that do demonstrate the feasibility of empirically examining some of the concerns--that is, that the magnitude of their influence can be examined. These empirical studies suggest that certain of the concerns may represent serious problems. For example, we compared the poverty rate estimates resulting from the Bureau's reports with those reported by independent analysts who made conceptual, operational, or computational changes (or all three together) along the lines suggested by the list of concerns. Table 5 shows the results of this comparison.

The clearest finding from the table is that poverty rates can differ from the Bureau's reports by as much as 5.2 percentage points. The differences depend on what factors are included in the analysis (such as adjustments for underreporting and taxes paid) and on whether households or families are the unit for which income is measured. But 5.2 percentage points is nontrivial: it would have meant roughly 11 million people, for example, in 1980. Further, depending on the method that is used for valuing noncash benefits and on the factors included in the analysis, the pre and post in-kind transfer poverty rates differed by as much as 6.4 percentage points, or roughly 14 million people in 1980. Further, it should be noted that poverty rates can change by as much as 64% or as little as 15% depending upon what benefits and factors the analyst uses in the estimation procedure. Most of the larger differences between the poverty reduction estimates are accounted for by the inclusion of medical transfers.

We recognize that some of the 52 concerns may not be tractable, particularly conceptual issues such as those associated with absolute rather than relative approaches to poverty (item 11 in table 1). However, we estimate that at least half of the concerns already identified are tractable. In our opinion, empirical analyses like those we have just cited illustrate that the technical concerns are important insofar as they lead to notable differences in estimates of the poverty rate.

How Have the Identified
Concerns Been Dealt With?

As I have emphasized, 36 of the concerns that have been raised were identified by the Bureau itself in TP 50, published in 1982. We report now on the extent to which the Bureau has dealt with these concerns. Reviewing the Bureau's technical papers 51, 52, and 55 (published in 1984 and 1985), we found that some of the concerns raised in TP 50 were not mentioned again in later reports; some others (the majority) were raised at least briefly in all reports, but only 1 (or 2 percent of the concerns) has actually been examined empirically (so the user could know more about the extent of the problem). In other words, our review of the Bureau's published work on valuing noncash benefits to date indicates that the Bureau has done little to address directly the concerns it has known about since 1982 or earlier.

A major focus at the Bureau which does appear to directly address some of the concerns is the development of the Survey of Income and Program Participation (SIPP). SIPP is intended to provide improved information on economic well-being by expanding and revising a set of questions on income sources and amounts, program participation, taxes paid, and a variety of related matters such as work expenses and housing costs. If successful, SIPP could provide not only more extensive data but also data of higher quality on the economic situation of U.S. families and individuals. Eventually, it would replace the Current Population Survey (CPS) for income and poverty estimation.

It is conceivable, given the extensive development effort the Bureau has devoted to SIPP, that rather than allocating scarce resources to the CPS-based problems identified in TP 50, the Bureau is exploring these problems as they relate to SIPP. If this is the case, then it is fair to ask, To what extent does the Bureau's work on SIPP shed light on the issues posed in Technical Paper 50?

When we compared our list of concerns with the contents of papers on SIPP that the Bureau has made available, we found that of the 36 issues identified by the Bureau in TP 50, at least 5 may be directly addressed by SIPP. For the most part, the work on SIPP has been devoted to achieving comprehensiveness with respect to data on cash income and program participation and to assessing the quality of these data (specifically, item 9 in table 1 and items 10, 14, 15, and 23 on table 2). We do not at all want to minimize the importance of this work. Clearly, SIPP may overcome many of the limitations of CPS data by providing, for example, data on the taxes that families pay as well as data on part-year versus full-year program participation. At the present time, however, the Bureau's work on SIPP is not directed toward many of the remaining issues that it has identified in its own publications as relevant to the valuation of noncash benefits and related components of the poverty indicator.

The Bureau has focused additional attention on developing methods of valuing the in-kind benefits that are provided by private sector employers. However, this work relates specifically to only one issue raised in Technical Paper

50--that is, whether to include private noncash benefits in the official definition of income (item 8 in table 1).

Thus, having surveyed the Bureau's technical paper series, as well as potentially related research on which the Bureau has focused its recent efforts, our tentative finding is that the Bureau has spent a minimum of effort toward assessing the importance of the broad range of issues raised in Technical Paper 50 and resolving them. But, we have yet to confirm, through formal conversations with the Bureau, whether they have actually assessed the importance of those concerns and resolved them. We can confidently say, however, that these assessments, if they were conducted, have not been reported in their technical papers.

What Are Our Tentative Conclusions?

We draw three tentative conclusions based on our work to date. First, there has been little direct, in-depth technical analysis of the three methods for valuation of noncash benefits and of valuation methods in general, even though a wide array of technical concerns--conceptual, operational, and computational--have been raised about them. Much of the detailed criticism that has been published is reported in the Bureau's own 1982 report, and there is a noticeable paucity of direct independent review.

Second, conceptual and operational concerns have, relatively speaking, received most of the attention in the publicly available literature while the computational issues, which are often harder to ferret out, have received very

little. That this is so may be an accurate reflection of the true seriousness of the concerns, or it may reveal the inaccessibility of the information that would permit addressing them.

Third, the Bureau has made little effort to test the robustness of its own methods, at least in terms of publishing information on the extent and severity of the many questions it had identified in 1982. Further empirical analysis and greater information distribution are needed to confirm the extent to which the existing concerns are serious as well as to identify potential problems with other aspects of the formulae that have not been critiqued in detail. Empirical examination may be difficult, but it is feasible. In our opinion, the Bureau may be in the best position to perform these assessments. But it is also true that researchers outside the Bureau could contribute substantially to this effort.

This concludes my prepared statement, Mr. Chairman. I would be happy to respond to questions.

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Table 1
Conceptual Concerns

1. Market value method overvalues benefit worth, especially medical benefits for the elderly
2. Medical market values for the elderly "eliminate" the elderly from counts of the poor in some states
3. Market value method lacks "caps" (limits) for need/benefit categories (especially medical)
4. Recipient value method undervalues transfers relative to earned income
5. Recipient value method overestimates benefit worth because normal expenditures are calculated at a resource level that equals money income plus the market value of all types of noncash transfers
6. Poverty budget share captures the "substitution" effect but not the "income" effect of in-kind benefits
7. Public or government noncash benefits should or should not be included in official definitions of income
8. Private noncash benefits should or should not be included in official definitions of income
9. Calculation of income should be on a pretax (vs. posttax) basis
10. Medicaid expenditures for institutionalized populations should or should not be included in the income of the noninstitutionalized
11. Absolute definition of poverty ignores the well-being of poor relative to national norms
12. Poverty thresholds should be consistent with income definitions
13. Current food-to-income "multiplier" is not appropriate when noncash benefits are included in income definitions
14. Consumer Price Index does not adequately reflect changes in cost of living for the average low-income person
15. Changes in medical costs may be independent of changes in services
16. Assets are not included in official definitions of income
17. Adjustments for work expenses, leisure, etc. are not included in official definitions of income
18. Lifetime income should or should not be a basis for official income definitions
19. Current definition of poverty ignores other conceptualizations (consumption, subjective, sociocultural)
20. A single national threshold may be less appropriate than a set of separate thresholds for geographic areas
21. Medical needs of the elderly should be included in threshold for the elderly
22. Same valuation methods should be used to (a) determine need and (b) value noncash income
23. Official minimum-needs standards may be inaccurate and out of date

Table 2

Operational Concerns

1. Insurance value is used for medical benefits (vs. services consumed)
2. Medical goods comparable to Medicare and Medicaid are difficult to identify in private market
3. Persons categorically eligible but not enrolled are not accounted for when the "population at risk" is estimated as persons ever enrolled or covered under Medicaid
4. Normal expenditures are a weak approximation of a utility function
5. Family (cell) matching procedure used to estimate normal expenditures risks selectivity bias
6. Constructing an adequate counterfactual group is difficult
7. Recipient value and normal expenditures method assumes that benefits in excess of normal expenditures have a value of zero
8. Consumer Expenditure Survey data used for recipient values are of poor quality
9. 1960-61 Consumer Expenditure Survey data used to calculate poverty budget share values are out of date
10. Quantity and quality of available benefit data are questionable
11. Quality of HCFA Medicaid data is poor
12. No adjustment is made for Medicaid benefit differences by race or residence
13. Private as well as public school children were counted in Current Population Survey as participants in the hot lunch program
14. Income is underreported in the Current Population Survey
15. Program participation is underreported in the Current Population Survey
16. Household (vs. family) should or should not be used as income unit
17. Multiplier used to calculate threshold may be inaccurate under current consumption patterns
18. Time period for which income is measured (short-term vs. long-term) may affect results
19. "Market basket" has been restricted to private goods and services
20. All persons receiving cash assistance have been counted as "recipients" of Medicaid regardless of whether they have received benefits or say they are covered
21. Medical benefits paid to deceased persons are included in average benefit value assigned to recipients
22. Current Population Survey population coverage may not be adequate
23. For most programs, the Current Population Survey data make no distinction between part-year and full year participation

Table 3

Computational Concerns

1. Variance of normal expenditures is suppressed in cell-matching approach (limitation of number of cells)
2. Some regression R^2 values are low (e.g., medical values for persons under 65 years old; $R^2 = 0.07$)
3. Imputation methods--missing data and benefit value--may not be adequate for poverty population
4. Poverty rate ignores the extent of income fluctuations around the poverty line
5. Average (mean) medical benefit may be less appropriate than alternative measures of central tendency
6. Negative values for housing subsidies were assigned a value of zero

Table 4

Number of Concerns by Type

<u>Method or topic</u>	<u>Conceptual</u>	<u>Operational</u>	<u>Computational</u>	<u>Total</u>
Market value method	3	1	1	5
Recipient value method	2	5	2	9
Poverty budget share method	1	1	0	2
Valuation methods in general	1	9	1	11
Definition and measurement of income	7	5	1	13
Definition and measurement of poverty	2	0	1	3
Definition and measurement of poverty thresholds	7	2	0	9
Total	<u>23</u>	<u>23</u>	<u>6</u>	<u>52</u>

Table 5

Comparison of Results from Previous Studies
Using the Market Value of In-Kind Transfers

Study	Data set, income year	Poverty rate (persons)		Reduction in poverty
		Prior to in-kind transfers	After in-kind transfers	
FOOD, HOUSING, AND MEDICAL TRANSFERS				
Bureau ^a Paglin ^b	CPS, 1975 Grouped CPS, 1975	12.3% 10.0	— 3.6%	— 64.0%
Bureau ^a Technical Paper 50 ^c	CPS, 1979 CPS, 1979	11.7 11.1	6.8 6.4	41.9 42.3
Gottschalk ^d	CPS, 1979	—	6.1	—
Bureau ^a Hoagland ^e	CPS, 1980 Aged CPS, 1978 aged to 1980	13.0 8.6	7.9 3.9	36.7 54.6
Bureau ^a Stockman ^f	CPS, 1981 CPS, 1981	14.0 14.0	9.0 8.5	35.7 39.3
FOOD AND HOUSING TRANSFERS ONLY				
Bureau ^a Technical Paper 50 ^c	CPS, 1979 CPS, 1979	11.7 11.1	9.7 9.4	17.1 15.6
Bureau ^a Hoagland ^e	CPS, 1980 Aged CPS, 1978 aged to 1980	13.0 8.6	11.1 5.9	14.6 31.3

^aThe Bureau's estimates are based on pre-tax family income with no adjustment for income underreporting.

^bEstimates include some adjustment for taxes paid and for household income sharing between unrelated members of the same household.

^cTP50 estimates are based on pretax household income with no adjustment for income underreporting.

^dAdjusted for income underreporting and taxes paid.

^eEstimates are adjusted for income underreporting.

^fStockman's procedures are similar to the Bureau's.

Source: Bureau of the Census, Technical Paper 50, p. 93, and Technical Paper 52, p. XIII; U.S. House of Representatives, "Poverty Rate Increase," pp. 50 and 237.

Mr. GARCIA. Thank you very much.

Mr. Herriot, you heard exactly what she said. I think the best question is to ask you if you can respond to the statements made by Ms. Chelimsky.

Mr. HERRIOT. All right, could I ask Dr. Gordon Green, my Assistant Division Chief for Socioeconomic Programs to join me?

Mr. GARCIA. Just introduce them so the stenographer will have that for the record.

Mr. HERRIOT. Dr. Gordon Green, Assistant Division Chief for Socioeconomic Programs at the Census Bureau.

In terms of working on the technical issues, that is, attempting to answer the questions that we and others have raised in the production of these statistics, the GAO indicated there are many of these issues that require improved, renewed sources of data. We have been working very hard to develop those data sources and the materials that would be needed to answer the questions.

Very often research is not just the final calculation of an issue. It involves identifying what information is needed to even examine the issue, securing that information, and then bringing it to bear on the problem at hand. Much of the data needed to value noncash benefits did not exist. In fact, some of it doesn't even exist now.

We are still looking at ways to examine other things that could be done and perhaps should have been done. On the other hand, there are so many alternatives and so many issues that we believe that a scattergun type approach is probably not going to be very effective and will be perhaps quite wasteful of examining issues that perhaps relate to methods that are not going to be relevant in the first place.

So we would much prefer a strategy, or approach, that attempts to get some consensus, to narrow the alternatives down a bit, assess the highest priority issues, and then move forward to examine those.

Mr. GARCIA. Mrs. Chelimsky.

Ms. CHELIMSKY. I guess I would have a problem with that. I think we both see that we have a difference about the right way of approaching this. I wouldn't consider that it is a scattershot approach, what would worry me would be making decisions, getting a consensus without having really looked at the size of the problem, because you might very well be eliminating some issues without really having a good understanding of the size of the effect.

Some of these issues, like the computational issues, they don't look like anything, you know. And then you start to reanalyze them, and you see that they make just gigantic changes in their effects on people. And so what I feel is that there needs to be empirical analysis performed.

I think that you can do that without taking a scattershot approach. I think what is needed is quite the contrary of that, but a comprehensive approach in which we feel we have some sense of the universe of issues. That has to be looked at, and also the criteria by which you determine the importance of the issue, because different issues could be very differently important to different people, and then the evaluation procedures that you would want to use to get a sense of the adequacy with which you had estimated

them. So it seems to me that we have a basic disagreement about the approach here.

Mr. GARCIA. I think my colleague from Indiana was very clear before. He said at one point the Census Bureau used to just count heads.

Yet, here in testimony before this committee, the word scattergun approach is used, and that doesn't make any sense to me frankly, because there are many poor people out there who are dependent on those figures and statistics, and there are sociologists who use those figures and statistics. Maybe it is not the right choice of words on your part, but that is what you said, and I would hope that maybe you would like to clarify that, Mr. Herriot.

Mr. HERRIOT. Well, I think perhaps I misspoke. I think I said we didn't want to use the scattergun approach. We wanted to attempt to clarify the issues to see if consensus couldn't be built and narrow the alternatives down so that the research could focus in on the most important issues and make the most effective use of the scarce resources.

Mr. GARCIA. Then I apologize for saying what I just said, and I will try and correct the record later on. But let's just go back. Here you have a situation where there is this dissatisfaction. There is a very reputable organization that says that the figures and statistics—the approach is not the right approach. There is something wrong with the approach or there is just plain something wrong. And I guess that your counsel wanted to respond, Mr. Herriot. Maybe we should give him a chance.

Mr. GREEN. If I can just add something to that. I think we may be a little bit closer on this than it may first appear. What we are hoping to learn from our conference in Williamsburg is whether there is some consensus on basic issues like what should be included in the definition of income, and what are the most appropriate techniques to value the benefits.

Right now we have nine different methods, as you know. And if some consensus on that emerges, if we can narrow that field down a little bit, then we can start concentrating our efforts on how to make those methods as good as possible. Then we can start doing the sensitivity analysis, looking at robustness and other things that you mentioned in your testimony.

We feel that we need to get some guidance from the research community to see if we can at least get a consensus on very basic things like that. Would you agree with that as a good research approach?

Ms. CHELIMSKY. I certainly would. I think everything would depend entirely on the degree to which you were getting to the point of making decisions without understanding the size of something. The ones that you mentioned sounded like very good ones to me that you could get a consensus on, but there are many others in those 52 concerns that really we just don't know the answer to. So it would be very difficult simply off of the top of your head to say this is a better way than that, and we should go this way or that way without—that is our problem is that, we are concerned first that there has been a lack of reanalysis, and second, what reanalysis hasn't been done doesn't seem to have been integrated.

I understood from your remarks that it was not your intention to make minor changes. But the size of the problems rather staggered us as we looked at them, and the fact that you continue to publish them makes us worry about misleading researchers because the estimates don't change as a result of the concerns that have been expressed, which, of course, you can't do since they haven't been empirically analyzed.

Mr. GREEN. That's part of the problem.

Ms. CHELIMSKY. Right. It is like a vicious circle, and what I am trying to do is break out of it.

Mr. GARCIA. OK, well, let me just interject at this point. You are absolutely correct, and that's why this committee has such a concern. As I said before, the Census Bureau has a very, very reliable reputation. And we don't want them in any way to lose that. But we also want the public to know, based upon the record we are trying to establish today, that as it relates to the formulas that measure poverty, that the guidelines are not in concrete. Those are up for discussion, and so statements may be coming out of the Bureau of the Census until we get a clear definition as to what this conference is all about. And that is, hopefully, what we can get out of this hearing today.

I would like to yield now to my colleague, the ranking minority member from Utah, Mr. Hansen.

Mr. HANSEN. Thank you very much. I have appreciated the testimony. It has been very informative to me. I am not in anywhere near the same category as the chairman that has a real feel for this type of thing, so let me just ask some things that I found a little tantalizing. If I may ask the GAO a question on your report on 8(a), table 4, kind of an intriguing thing, you have a conceptual, operational and computational; 23 on conceptual, 23 concerns on operational, and only 6 on computational.

What am I reading into that? Am I—

Ms. CHELIMSKY. That is an interesting question. I thought of that myself. I don't think there is anything to be read into it, because I have the feeling that these are basically ad hoc. My sense is that we don't really have a good understanding of the universe of concerns that exist. These all have been raised by different people, 36 of them by the Bureau itself, right at the beginning.

But my sense is that we really don't know at this point how many computational concerns there, in fact, are with regard to these methods. We only know about the six that have been raised, and so what I think you have to conclude is that not a lot of attention has been paid to the problem of computation. That is not too surprising because computation is a sort of orphan. It is much more fun to think about conceptual problems and those other glorious, elegant issues that we like to fool around with. Whereas, computing things is more mundane and boring. Yet actually, that is where you come a cropper almost every time.

Mr. HANSEN. I would be looking for some big intriguing question behind there that you had in the back of your mind, but there really isn't one, then.

Ms. CHELIMSKY. I don't think so. I think it is an ad hoc manifestation of what people have looked at.

Mr. HANSEN. You said in your testimony that there are many unanswered concerns surrounding the Bureau's evaluation techniques. Would you outline some of the approaches you would use to obtain answers to these concerns?

Ms. CHELIMSKY. Yes, I think, of course, that we would like to see reanalysis done, as we have said, empirical assessments done. But we think that empirical assessment is not going to work with all of these things. We are really quite aware of that, so we think that, you know, some special studies could be done for some things, some little side studies, some pilot tests, some syntheses confronting what people have said in even a harsh way, if necessary, and other kinds of simulations, perhaps, models, to try to get a sense of the way things would work.

Would you like to add to that, David?

Mr. CORDRAY. The only thing I could add is it may be sensible to have a second conference after data are gathered about some of these issues. Then we may have some better understanding of the magnitude of the difference that various factors have on the poverty rates or on the distribution of people classified as poor. It may be nice, at that point, to have the experts come back and examine that data based body of knowledge to determine which factors need further attention. This process would be similar to what has been developed at the National Institute of Health and may be a way of generating a consensus once we have the data in hand.

I don't think we are that far apart from the Bureau in terms of how these issues could be resolved. I think our approach to establishing priorities is to sandwich in between the preliminary and final judgments about the importance in factors a set of empirical analyses.

Mr. HANSEN. Let me ask one sweeping question, if I may. I guess I have been operating like most of the people in America of what the scope of authority, what the purview of authority would be in the Census Bureau. Most of us come to Congress—or we have our knowledge somewhat tempered—thinking, as the gentleman from Indiana pointed out, that we just count heads. It has been a revelation for me to sit on this committee and to see that there is much more to it.

Let me ask your opinion for a minute. Do you feel that Congress is taking you beyond the scope of authority that was originally given you substantially, and if so, is this things that are beneficial? I get that question all the time out there in the hinterland, so to speak? What are they asking all these questions for? I mean out in the State legislature, most of us thought it was so we could see if we got a new Congressman or not, but in reality, apparently, we asked all kinds of questions.

I looked at one of the questionnaires, and I was amazed at the depth it went into. I know that is kind of off the top, philosophical question, but I would be curious to hear your response. In other words, do you feel that Congress has pushed it beyond the original intent of the law?

Mr. HERRIOT. Well, the Constitution talks about the numeration of the population of the United States, but there never has been, I believe, a statistical activity undertaken by the Bureau that simply did a counting of the heads, even from the very, very earliest time.

The appetite for information about our society and our economy, by Congress, has grown greatly over the years. They look for ways to transfer funds to help with one issue or another, and more and more they look to data to help them do that, and so it develops to a point where there is actually a legal basis somewhere, in some law, for virtually every question on the decennial census. When you get into some of the current surveys, as we are doing here, there are a lot of questions of "why can't you answer these questions; why don't you have more information?" So we ask more questions to refine the techniques, to be more precise, to be fair, to find out truth.

The chairman said that is what this is all about. You need to ask for a lot of information to find the answers. I don't know if it has gone too far. People seem to have a need to know more nowadays.

Mr. HANSEN. You take your basic premise from the Constitution, and from the Constitution you go to regulation and play it topsy. Whatever Congress asks for, you go out and get. Is that about it?

Mr. HERRIOT. Well, we take very seriously what the Congress asks us to do, yes, sir.

Mr. GARCIA. Will my colleague yield?

Mr. HANSEN. I would be happy to yield to the chairman.

Mr. GARCIA. Just let me make it very clear that my colleague is right. This is his first year as the ranking minority member of this subcommittee. I just want to make it clear to my colleague from Utah that demographers in general are an insatiable group of people. Data and figures and statistics, whatever you give them, it is still not enough. Somewhere down the line they will be figuring out some scheme as to why people use paper of a different color or candles of a different color, or whatever the case might be.

That data becomes part of business for the private sector. They need those figures and statistics, but I have found that whatever you give them is still not enough.

Is that a fair assessment? I think it is. Don't answer that.

Mr. HERRIOT. I would rather not comment.

Mr. GARCIA. Don't answer it. It is all right.

Mr. HANSEN. I may answer the chairman, I read a book recently called "Megatrends," and talked about going from agriculture to industry and now the information gathering people of the world, and I personally feel that is true. We are getting to that point and we do have an insatiable desire to know more statistical information that is constantly going out. I just hope we don't see the point that we have you in here like the Secretary of Defense, who has an awfully big budget, that we come to that point when there is other entities that are pretty good at gathering information themselves even though I do compliment you on the work you do and GAO and your interesting analysis of what they do.

Thank you very much, Mr. Chairman.

Mr. GARCIA. Thank you, Mr. Hansen.

Just let me say we do our own demographic studies when we conduct polls in our own congressional district. The difference is that it costs us a great deal of money to do those polls, and sometimes I think we didn't want to know the answers to some of the questions that we sent out anyway. But just let me at this point yield to the

staff director and counsel to the committee, Ms. Fernandez, who has a series of questions she would like to put forth.

Ms. FERNANDEZ. Thank you. What evidence does the Census Bureau have for claiming on page 4 of their testimony that it is misleading to the public and policymakers to publish simultaneously poverty statistics based on radically different definitions of income? Yet it appears, based on what we have just talked about, that there are significant empirical and conceptual problems with the evaluation techniques.

Would you hope that policymakers and the public use flawed techniques in developing policy and executing programs? Does using flawed data help the public get a better understanding of the economic well-being of the people in this country?

Mr. HERRIOT. I think we have a concern in terms of the publication policy that we put out one set of numbers for a year, and then a little later on, we put out another set of numbers for that year. People may very well think that the second set supplants the first set, and is in fact the new revised official numbers or however you want to say it.

In addition, there is possible confusion. We believe that the last number that you heard for last year, for example, is probably the one containing the noncash benefits included. On the other hand, the first number that you hear for this year is one that doesn't. People get mixed up as to how to measure the change that may have occurred, and they are actually mixing apples and oranges.

We believe that if we can put out all of the relevant statistics, and I believe the numbers containing the noncash benefits are relevant to any understanding and discussion of what is happening to the lower part of the income distribution, if you can get that all out at once, then there is a better chance that people will understand the nuances and the differences and be able to interpret them correctly.

Ms. FERNANDEZ. So it is assumption, it is not based on evidence.

Mr. HERRIOT. I think it is a concern based on an experience we have had over the years and, in our experience, people get numbers confused.

Ms. FERNANDEZ. Initially, these series were not published together. Is that true?

Mr. HERRIOT. That is true. Initially we did not have a computerized system that would allow all the numbers to be done at the same time. We don't like to hold up any numbers that we have finished, and so we release them when we get them done. If we can, however, we bring them together if we think it would be useful.

Ms. FERNANDEZ. When you release the official poverty rate, you also release nine other figures using various valuation techniques, is that correct?

Mr. HERRIOT. Right.

Ms. FERNANDEZ. And you believe that issuing 10 poverty rates simultaneously is not confusing to the public?

Mr. HERRIOT. Very often the way the noncash rates are handled is that the range of possible alternatives that you would get by looking at the noncash benefits are the numbers that are cited along with the official numbers, rather than nine different estimates.

Ms. FERNANDEZ. On page 7 of your testimony it indicates that the Bureau is also considering public and private noncash benefits received by nonpoor people. This will help assuage fears that only poor people are being made guinea pigs of this research, but if the field of noncash benefits expands to include a broader array of public and private services in people's incomes, then where do you draw the line? Who draws the line?

For example, would you be considering the fair rental value of privately-owned homes, the usage value of public streets? How might the census' estimates of per capita and medium income be affected? And how do you see this research improving the quality of the estimates for people? I know that is a lot, but you can respond generally.

Mr. HERRIOT. Let me say a couple of things about that. This is one of the major questions that we are going to raise at the conference that we will be having, but it is not totally as fluid as one might suspect. I would suspect the Bureau would be very much guided by the theoretical structure underlying the national income and product accounts, and the workings of that mechanism to provide a guide, though it may not be exactly the same, but to guide the definitions of income which would be appropriate for statistical and economic research.

Ms. FERNANDEZ. Could you explain why there was no consensus among the Census Advisory Committee members as to the best valuation technique? And, can you also summarize some of the reactions of the experts that were referred to in your testimony, and their reactions to the Smeeding methods?

Mr. HERRIOT. Gordon, would you like to do that?

Mr. GREEN. All four were economists. I think the one thing that most economists will agree on is that theoretically the best way to value noncash benefits for measuring well-being is the cash equivalent value approach in terms of what the benefit is worth to the individual. But as you know, from the GAO's testimony and also from what is in the Tech Paper 50, the methodology is very difficult for the cash equivalent value because of limited information on expenditures.

The way economists normally talk about this problem is to refer to utility functions, which refers to rates of tradeoffs. Well, in a survey, you can't really get inside of somebody's head and find out about a rate of tradeoff, so we try and use expenditure data to approximate that. The problem is that there are many problems with the data, and so one starts to look at other approaches like the market value, or the poverty budget share approach.

What emerges from this is that there is no clear-cut winner to these approaches in terms of being the best approach. You will find people with very scholarly credentials coming out with entirely different recommendations about which approach to use, and no consensus emerged from those groups of four. Basically what we ended up with were modifications to Smeeding's original text, but on fine points, nothing in the way of the major consensus. And that's one reason we feel we need to get more of the professionals together in this larger conference in Williamsburg. To see after 5 years of publishing this data whether some consensus has started to emerge,

and from there maybe we will get a better direction as to where we should go in the future.

But we have also been surprised by the lack of public comment and examination of the statistics. I guess we had hoped to get more in terms of directing our work. Maybe this conference will bring that out.

Ms. CHELIMSKY. I think that would be a useful thing, if I can just make the point here. One of things that troubles me is that it seems to me that if we try to get consensus on which of the methods we ought to use, that is a rather grandiose level for looking at the thing, and it seems to me that if we haven't analyzed what the effects of some of the aspects of each of the methods is, that we will simply be going on what people think might be the effects, you know, the old prospective method in which we say, well, according to theory, this method should give that effect. That is a very hard way to develop a consensus. That's why we are suggesting that you move toward more analysis, although not on every concern. I am not pushing you on every concern.

Mr. GREEN. If I can just give an example of what I meant, the major benefit of the ones that we have counted is the medical care benefits. They comprise about 80 percent of the total that we have counted.

The first thing, I think, is to look at the definitional aspect. Should medical care be included in income? If we can get some agreement on that, then empirically it really doesn't matter which of the valuation approaches you use—

Ms. CHELIMSKY. Exactly, if you are not going to evaluate, then you don't have to worry about how it is done.

Mr. GREEN. Yes, because they all have about the same result.

Ms. CHELIMSKY. Yes.

Mr. GREEN. But if people feel that medical care shouldn't be included, then we may be wasting effort in trying to—

Ms. CHELIMSKY. You have a triage point, which I agree with, and there are some things that you can do that with. What worries me is that you will do it with all.

Mr. GARCIA. There is a vote taking place on the floor, and I think it is going to be a succession of two votes. That is my guess. There is a motion to recommit which we will probably vote on right after that.

My counsel tells me that there are several other questions that have to be asked. The problem I have is that I don't want to hold you folks up. Maybe what I should do is give you the questions, and if you can get back to us either tomorrow or the following day with the answers, this way you can go about your business, but we have to have answers to the questions. She wants me to stay and come back, and I just don't know how long I am going to be over there.

I must adjourn the meeting now, because there will not be any Members of Congress here. So whatever you say after adjournment with just counsel present cannot be entered into the record. But if you could respond to the questions that staff will give you, and get it right back to us, I think it would be terrific.

Mr. HERRIOT. Excuse me, Congressman. You are asking us to provide written replies to these questions she will give us in the next day or so?

Mr. GARCIA. The answer to that is yes. However I reserve the right to continue this question and answer period at a later date.

Ms. CHELIMSKY. That is just fine.

Mr. GARCIA. Then with that, we will call the meeting to a close, and we thank you very much.

[Whereupon, at 3:15 p.m., the subcommittee was adjourned subject to the call of the chair.]

CENSUS BUREAU ACTIVITIES ON VALUATION OF NONCASH BENEFITS

WEDNESDAY, NOVEMBER 20, 1985

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CENSUS AND POPULATION,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, DC.

The subcommittee met, pursuant to call, at 10:35 a.m., in room 304, Cannon House Office Building, Hon. Robert Garcia (chairman of the subcommittee), presiding.

Mr. GARCIA. Good morning.

We are here today to continue the hearing our subcommittee held on October 31 on the Census Bureau's activities on valuation of noncash benefits. We felt that a continuation was necessary because we need to discuss this matter fully in order to understand the Bureau's activities and to have the Census Bureau understand our concerns.

Today we will continue the questions and answers session at which we left off at our last hearing. In our session, we plan to address the following three areas: First, the status of the Census Bureau's research on noncash benefits as well as the status of the General Accounting Office's research efforts in evaluating the Census Bureau's research; second, our concerns regarding simultaneous releases of experimental data with the official data; and, third, the Census Bureau's plans for a conference on noncash benefits to be held this December.

I would like to welcome once again Mr. Roger Herriot from the Census Bureau and Mrs. Chelimsky from the General Accounting Office, who presented their testimonies at our last hearing and are coming before us again to answer some questions.

I also welcome Dr. Gordon Green of the Census Bureau, Dr. David Cordray and Dr. William Scarborough of the General Accounting Office who were with us last time and are before us again with their knowledge and expertise. They will join in our discussions today.

Again, thank you very much.

As you probably know, this is a very significant issue. As far as I am concerned, this is probably one of the major issues that is going to face the American people for a long time to come, and I am not being overly dramatic. I think Members of Congress see things from their own eyes, and from my eyes I think that the question of noncash benefits is going to play a role in determining exactly

what is going to take place with not only this administration but the administrations that will follow.

And it is because of our concern that all Americans, whether rich or poor, be treated with equality that we are going to pursue this issue by having hearings. I appreciate very much your kindness in coming. I know you have your own schedules to worry about, but I am glad you are here because what we are trying to do is build a record which we are going to need as we continue further with the deliberations on noncash benefits.

So I thank all of you again for being here, and I do not know in what order, but now we are going to ask some questions. Is that fair?

Last time—Mrs. Chelimsky and Mr. Herriot, and I think you were participating in that conversation as well—Dr. Green, you made some statements as it related to your agencies, and there was a dialog back and forth.

In the testimony you presented at our last session, you expressed that the data on noncash benefits are research results as opposed to being part of the official data. When you mentioned that you plan to evaluate the Bureau's publication policies, it seems you imply that the data will be moved out of the research mode and moved into a vehicle for regular reporting of an economic statistic.

Now, the question is when and how will this change take place? When is the Bureau planning to make data on noncash benefits part of the official data series?

I think based on that why don't we start off with the gentleman from the Bureau of the Census.

Mr. HERRIOT. We have published the data on noncash benefits in a technical paper series over the past several years. That series was designed for publishing research results but was never really thought to be or intended to be a vehicle for reporting a data series year after year in the continuous publication program.

So I think it would be desirous from our point of view to move these statistics to some other type of a vehicle. The Congress in its request that we do the work on noncash income has asked us to monitor the results over time and publish regular reports on the value of the benefits and how they affect poverty; and so if we are going to continue to have a time series, perhaps it should be in some other vehicle.

I think what might be the most appropriate vehicle to use in the future may well depend on what we learn down at the conference.

There are however, other instances where there are several different measures of the same things published simultaneously in a publication. For example, BLS releases four employment rates each month, only one of which is official, but the others have other uses and other reasons for being and they are all put there together. For a while—I do not know if it is still going on—but for a while two CPI's were published as a result of changes in their methodologies.

Mr. GARCIA. When were we getting two separate reports? As far back as when?

Mr. HERRIOT. For several years there was an overlap of the two different measures so that people had a good—

Mr. GARCIA. Coming out of the same agency?

Mr. HERRIOT. Yes; in the same publication.

Mr. GARCIA. Different mathematical formulas, one with housing and one without housing?

Mr. HERRIOT. Exactly.

Mr. GARCIA. That process was going on for some time.

Mr. HERRIOT. Yes.

Mr. GARCIA. It was not something new with this administration and applied to this administration only; is that a fair assumption?

Mr. HERRIOT. Do you know about this, Dr. Green?

Mr. GREEN. I know it had to do with the treatment of housing.

Mr. GARCIA. That was the kicker, the housing. Fair value as opposed to rental.

Mr. HERRIOT. Exactly.

Mr. GARCIA. But did that come in prior to 1980 to the best of your knowledge?

Mr. HERRIOT. To the best of my knowledge.

Mr. GARCIA. It came in after or before 1980?

Mr. HERRIOT. I really do not know. I can find out for you. We can send a response back.

Mr. GARCIA. The reason why it makes a big difference is because so much is based upon a CPI in terms of many of the pension funds that are out there; and when they change that, it seems like the Consumer Price Index is going down when in reality it is still the same. It is again like noncash benefits. Nothing is changed except the formula.

We have had this discussion before and based upon my knowledge of all the COLA's that are involved, not only from the public sector but from the private sector as well, based upon the CPI, then they changed those formulas. Obviously, the payments are less.

So that is why. You know, that is probably the best case in point we have as it relates to where we are. That is why I really wanted to know when you talked about two methodologies coming out, but one is for the CPI. I am really not an expert in it, but I remember that that was a major point with me, and we discussed it on more than one occasion on the floor of the House.

Mr. HERRIOT. Yes, sir. But I wanted to point out that this does happen from time to time. There will be several measures that will be presented in the same report, one of which may have more of an official status; and sometimes they are doing that to make a bridge for a transition from one measure to another measure.

Ms. FERNANDEZ. Mr. Herriot, if you are attempting to analyze these situations, can you just give us a little background. I understand that you may not be well versed on this subject, but in terms of the change in the methodologies for the CPI. Can you please explain whether there was an assessment? Was there an evaluation? Were there congressional hearings? What was the process that was used to get there, and how can you analogize that situation with the current situation on noncash benefits in terms of the activities of the Bureau?

Mr. HERRIOT. I do not know all the details about the process. As I remember, it was a rather long process that involved many people in different institutions, the Congress and agencies of the Federal Government.

Mr. GARCIA. Excuse me. I just want to interrupt you, if I may.

The Congress had a role in the CPI?

Mr. HERRIOT. I believe they had hearings on the issue.

Mr. GARCIA. We will check that out.

Mr. GREEN. I think concern was expressed during the late 1970's when we had very high inflation and when housing prices were soaring so rapidly that makes a big effect—

Mr. GARCIA. Was there a public hearing?

Mr. GREEN. I did not attend. I do not remember, but I know the BLS ran some experimental series before they actually came out and published both of them. They looked at it for a while. I do not remember when they actually made it first available to the public.

Mr. GARCIA. Well, I guess the key point here again is that decisions are being made by an agency without coming to the public. What we are trying to do with noncash benefits right now is to make sure that the Congress is well informed. We are monitoring what is taking place so we can report back to the Congress. The decision made by the Bureau of Labor Statistics as it relates to the CPI was obviously, from what I hear, a decision that was made by an agency. Now, there may be some historic benefit that we are the only country that used that formula or the only major country in the free world that used the market value of a home as opposed to the monthly equivalent; but still that decision was made without coming through the Congress. I guess that is the point that we are trying to make here.

The Consumer Price Index affects millions and millions of people, and nobody knows where and how it came about. It just happened one day. The average Americans would scratch their head and say, geez, the CPI is going down; that means our COLA is going down.

Mr. GREEN. It seems if BLS has an oversight committee, like the Census Bureau, they should have reported to the oversight committee.

Mr. GARCIA. OK, but that is a good point. I am glad you brought that out, Mr. Herriot, because I think that really is the crux of what we are trying to get at here.

In your written testimony you mentioned that the Bureau's main test is not to make minor changes in the original methodology. During the last 4 years the Bureau has identified problems in the methodology, but the Bureau did not address them. Would one conference be adequate to address all problematic issues related to valuation methodology and what plans are currently being reviewed to analyze and evaluate the issues or the concerns raised in the December conference? As to the best of your knowledge, is it just going to be a one-shot deal or is it going to be a series of meetings discussing noncash benefits?

Mr. HERRIOT. We do not believe that one meeting or one conference is going to solve all these problems. I wish that were true, but—

Mr. GARCIA. You can pack up and go home.

Mr. HERRIOT. Yes, and do something else. But I do not believe that will be the case. What we are looking for the conference to do is to help us focus on what the next appropriate step should be. And as we are able to do that, then we can see to what extent empirical research, data gathering and so forth need to be done, what

type of outreach is needed and what outside input from relevant parties, experts and other people and so forth would be appropriate to take.

I think we see the world a little bit different than GAO in that the nine estimates we have provided give a very wide range, and that range is largely the result of conceptual differences—different ways of conceptualizing these benefits. Specific assumptions underlying some of those data, other empirical approaches and so forth could sharpen and make the numbers come out slightly different, but it is not going to substantively change that range.

The issues are predominately conceptual at this stage, and we would hope that the conference could provide a good bit of focus on conceptual issues and help us with some narrowing of what the next step should be.

Mr. GARCIA. Mr. Green.

Mr. GREEN. Yes; I agree. I think the conceptual issues are the key thing. We need to focus in on what should be included in the definition of income. And as I think I said last time at the hearing, the treatment of medical care is the key because 80 percent of the benefits we have counted are in the form of medical care. The key question is, Should that be included in the definition of income? Once that decision is made, when you look at the different valuation approaches, it does not make that much of a difference for the other kinds of benefits. You get very much the same result. It is the medical care that is really the most intractable both conceptually and empirically in terms of data we have to work with, and it is our hope the conference will help us focus more on that.

Mr. GARCIA. How many medical people do you have attending to the best of your knowledge?

Mr. GREEN. We have people who have worked in medical economics. Let's see. I have got a list of attendees.

Mr. GARCIA. Those who would be able to focus specifically on Medicaid and all those costs that are going to affect so many, especially senior citizens.

Mr. GREEN. One of the discussants is Henry Aaron of the Brookings Institute, and recently he has been specializing in the medical care issues. So actually we have many who know about different ways of counting the benefits.

Mr. GARCIA. Would you be kind enough to do us a favor. I imagine that you have brought in a group of people from various fields who are going to be sitting together and maybe branch off into subcommittees and talk about specific issues, one dealing with Medicaid, another with food stamps, another with education and so on and so forth. Would you send me a list of those people who have been invited specifically because they are specialists or they have an expertise in a specific area and it relates to this conference?

Mr. GREEN. OK.

Mr. GARCIA. Is that possible?

Mr. HERRIOT. Yes, sir.

Mr. GARCIA. You are not going to invite an engineer to talk about Medicaid, that is for sure, and you are not going to invite somebody who is a doctor to talk about food stamps. It is just not going to be, so I would appreciate that very much so we would have a better idea as to why people have been invited.

Mr. HERRIOT. OK.

Mr. GARCIA. I think the question I am about to ask you answered in some fashion.

But I just want you to know that we appreciate—that the Census Bureau, since we have become involved in noncash benefits, has been willing to listen to some of our recommendations—they have been willing to at least hear us out and in some instances if we have some suggestions, they have given it every consideration. I am particularly delighted that they have not been closed minded in terms of getting more and more participants and people to become involved themselves.

The question I have is, How do you go about picking the discussants, and I think you will get that to us in terms of who the discussants are and why they were selected. I think that would be fair.

Mr. Green, when you briefed the subcommittee staff on the conference, you mentioned that there will be an additional session entitled, "Where do we go from here?" And this session will allow the participants to express their opinions on what followup is going to be needed.

The conference outline you have submitted for the record seems identical to the one submitted for our April 18 hearing record. Do you plan to add that session?

Mr. GREEN. We have made some changes to the agenda. Did you get another one yesterday?

Ms. FERNANDEZ. No.

Mr. GREEN. We have prepared another one which I can give you this morning. We had planned to do this in the different working groups that we are going to have, made up of the participants. After the authors present their paper we were going to ask each working group where do we go from here. If you were the Director of the Census Bureau what would your next step be? And then we are going to have reports of those working groups back to the plenary session, and then we are going to have open discussion for 2 hours in which we are going to consider that as well as anything else that the participants wish to consider. So there should be an ample opportunity for people to address that issue.

Mr. HERRIOT. Each working group will address one, maybe two questions that are the same for each group, one of which is this question, and then they may have one or perhaps two other questions that they can specialize on. We feel you cannot really have a discussion with 150 people.

Mr. GARCIA. I appreciate that.

Mr. HERRIOT. So by breaking up in these groups and having each one address it, the various viewpoints will surface and the rest of the conference will be to report back out on those and then get a reaction to them. So I think that that issue will be very much addressed.

Mr. GARCIA. Mrs. Chelimsky, you have been awfully quiet.

Mrs. CHELIMSKY. It is not like me.

Mr. GARCIA. I know that. That is why I make the point.

Mrs. CHELIMSKY. Did you want me to comment on some of this?

Mr. GARCIA. Yes. I believe that would be better than asking these formal questions. If there is anything that you would like to

add, and that pertains to you, Dr. Scarborough, as well as you, Dr. Cordray, I would appreciate that very much. You heard what they said.

Mrs. CHELIMSKY. Yes. Yes.

Mr. GARCIA. We have some questions for GAO as well, but I would like an overview.

Mrs. CHELIMSKY. I do have a couple of comments. After we left the hearing last time, I was thinking about the issue of focusing on conceptual issues and getting rid of some of them, perhaps, as a result of guidance from the conference, and I guess I would like to make a few points.

The first point is that I am all in favor of conferences. I think they are good things to have. When you have unresolved technical issues it is good to air them, to talk about them, it is good to have public debate on them; and I have hopes that we will because, you know, as we said last time we are not sure that we have isolated all the issues. We found that there was not a comprehensive framework. We found that issues seem to have been raised ad hoc to some degree and, therefore, we expect some more issues to surface at the conference.

So I do not want what I have to say now about the conference to appear to minimize its value or to make anybody think I do not think it is great. I do.

But I think that we should not be expecting too much from it. One of the things we did after leaving here was to take a look at those 52 issues we had raised, and we asked ourselves, how many of those—and that, of course, includes conceptual issues, operational issues and what we called computational issues—how many of those could you address at a conference? What is reasonable to address at a conference?

And, you know, because of the lack of technical work that has been done and because of the diversity of issues that have been raised on technical issues, we threw out 25 issues that we just did not think could be addressed at a conference. And then of the 27 that remained, we started looking at the ones that required a great deal of technical input, and we started looking at the kind of conference that it was. It is a technical conference and we came up with two realizations: That for some of the issues that could be addressed because they were not that technical but were conceptual in some ways, then perhaps the conference was not an appropriate forum. It is, after all, a technical conference and you would need a larger consensus than you would be able to get there in terms of the kind of issue that it was. In other cases it seemed to us that you could not solve the technical problems at a conference.

So we felt that, you know, it boiled down to a very few issues; and even those, if there were consensus, we would want to know on what basis the consensus was arrived at and whether the consensus was appropriate to the kind of issue and we would want to re-examine it afterward.

So what I worry about here is whether guidelines that we come up with from the conference could really be sufficient to help us move to the kinds of things that we were talking about moving to in the official statistics that we were talking about earlier.

Did you want either of you, to add to that?

Mr. CORDRAY. I do not think so right now.

Mr. GARCIA. But you started by saying that you believe the conference is healthy.

Mrs. CHELIMSKY. Oh, I think it is a good thing.

Mr. GARCIA. But you finished by saying not to expect very much from it.

Mrs. CHELIMSKY. Not to expect resolution of issues. I think we can raise more issues and we can get a better sense of how to confront some of them, although even there the issue of how representative that conference is of both the political issues and the technical issues that are raised remains a question.

Mr. GARCIA. When 535 Members of Congress see that information is coming out every one of them is going to pick something out and say, see, this is what we must do. So there are many people here on the Hill who are going to accept some of these reports as gospel, that is the way it is going to be, based on these great minds who are participating in that conference.

Mrs. CHELIMSKY. Could I raise just one more point?

The issue of medical benefits, let's say we threw it out, we decided it was too difficult, it was too troublesome, we do not know how to do it. That would have an effect later on if we started looking at perks in nonpoverty groups because we do not know what the spread is, we do not know what the distribution is. It would have an ongoing effect that we ought to look at before we throw it out simply because it is troublesome. That is the kind of issue that I am trying to bring out.

Mr. GARCIA. Exactly. I agree with you.

Just to go off on a tangent, but related because if we are going to have equity, let's have equity up and down the line. let's start with the chief executive with the 727 Boeing jet who has all the amenities, the brass bathroom and sofas, and all sorts of telex machines who flies back and forth to work. That is part of what the company affords the CEO of a major corporation, yet it is all written off. I state that because I remember recently a major buyout of a major cosmetic firm. I was reading the Wall Street Journal and part of what the chairman of the other company had was a jet—I mean he had a lifestyle that was just unbelievable. I am sure that practically all of that is written off, and we, the taxpayers, are paying for that and have been paying for that, but we are not even aware of it.

Mrs. CHELIMSKY. The final point is we will be evaluating the conference. We will be looking at the content.

Mr. GARCIA. That is going to be essential. It will be essential and crucial. After the conference we are going to have a hearing, I mean just immediately after the conference is completed. We will have our people at that conference monitoring it and participating in that conference so that we will be able to keep the record, fresh and updated.

I am going to yield now to the staff director.

Ms. FERNANDEZ. This is a statement for the record.

Shortly, the fiscal year 1986 appropriations bill will go to conference. Currently, the House and the Senate versions of the reports accompanying the appropriations differ.

In response to the differences, Dr. John G. Keane, Director of the Census Bureau, has written to the the chairman by letter dated November 14, 1985 which I would like to submit for the record.

In summary, the Bureau of the Census has made six commitments—four of them we have discussed throughout this hearing. Two of them are worth mentioning because they cover new grounds: The Census Bureau has stated that it will issue a public notice of intent 6 months prior to action to remove the "experimental" label, if and when we determine that the series on valuation of noncash income is no longer experimental and a 6 month public notice of intent to incorporate new measure into the official income statistics.

Mr. GARCIA. So there is a letter attached to that from John G. Keane, and it will be entered into the record in its entirety.

[The information of follows:]



UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
 Washington, D.C. 20233
 OFFICE OF THE DIRECTOR

NOV 14 1985

Honorable Robert Garcia
 Chairman, Subcommittee on Census and Population
 Committee on Post Office and Civil Service
 House of Representatives
 Washington, D.C. 20515

Dear Bob:

As the House of Representatives and the Senate Appropriations Committees' conferees begin considering the differences between their appropriations bills, it is timely to address one issue in which there are differences. That issue is the valuation of noncash benefits.

Because the Bureau of the Census wants to cooperate with Congress towards mutual goals and interests, I want to give you the following assurances that I hope will obviate further involvement by the Appropriations Committees.

The Bureau of the Census will:

1. Research the valuation of noncash income (NCI) across the entire income distribution, including employer-provided benefits as well as the various government subsidy programs;
2. Keep the research process on new methods and evaluation of current data series in the open with opportunity for diverse, relevant input;
3. Continue the official cash money income measurement;
4. Continue to label the experimental series appropriately;
5. Issue a prior (6 months) public notice of intent to remove the "experimental" label, if and when we determine that the series on valuation of noncash income is no longer experimental;
6. Issue prior (6 months) public notice of intent to incorporate new measures into the official income statistics.

The Census Bureau will continue to work with you and other members of Congress to carry out our mission. We value your interest and help.

Sincerely,

JOHN G. KEANE
 Director
 Bureau of the Census

Mr. GARCIA. A question for the GAO: Regarding the computational concerns that you mentioned in your testimony, why do you think the Census Bureau has devoted little attention? Is there adequate information available to address these concerns? Is the Census Bureau providing enough information to outsiders to evaluate computational issues?

Mrs. CHELIMSKY. Well, to begin with, we are just beginning now to conduct our interviews, to talk with the Census people. We have been mostly looking at public literature up to now. Our next steps are to reanalyze public use tapes and go much further with that. All I can do is speculate about the answer to your question, and I think these people next to me can tell us much better than I why they have not; but, as I said last time, I think the computational issues are a mindset problem. Very often people do not bother with simple arithmetic. The implementation of programs is a good example. You look at their grand design, but when the time comes to do the implementation, mostly it is not thought out very well. The design is much better thought out, but operations are something else, and I think this is a similar thing. The conceptual issues are issues that really excite people's minds and that you think about a great deal; the operational issues much less so, and the computational issues absolutely not at all.

So I think it may simply be that they just have not got around to it yet, but I have no doubt that they will when the proper time comes. I would have thought the proper time was earlier, but we have, as we know, a difference about that.

Mr. GARCIA. I would hate to be the Bureau of the Census having you looking over my shoulder. You know that, don't you?

To the Bureau of the Census, your suggestion in your testimony presented at our last hearing was that the income data from the Current Population Survey, which is the basis for official poverty estimates, are not as accurate as that obtained from the Survey of Income and Program Participation, better known as SIPP. To what extent are these more accurate statistics used in calculating official poverty income distributions? Which noncash benefits used in our technical papers are not covered in SIPP's data? You had plans for valuing noncash benefits covered by SIPP but not included in your technical papers.

Are there plans to include noncash valuations in future SIPP publications? You got about 3 minutes to answer all those questions.

Mr. HERRIOT. As of this time, we have not included any SIPP data in the computation of any poverty rates either using that survey directly or in some way influencing the Current Population Survey where poverty rates come from. That will require a longitudinal processing of the data which we are just beginning to do now.

With respect to the question on whether the noncash benefits covered in technical papers are included in SIPP, they are all covered.

Do we have plans for valuating noncash benefits covered by SIPP but not included in the technical paper. Yes, very definitely in the area of employer-related benefits. That is an area that we think is probably the most important for us to take up.

Are there specific plans to include noncash benefits in future SIPP publications? We have not designed such publications yet, but they would be a very likely, appropriate place.

Mr. GARCIA. OK. I would like to thank all of you. The bell, as you probably know, has rung. We are going to call the hearing to a close. We will get together once again. I prefer to do it in this type of a forum. As I said before, I really want to build the record up. So I thank all of you once again for your patience. We may have some additional questions. You are familiar with that procedure. We will keep the record open for a while, and the staff director will be in touch with you.

Thank you so much.

[Whereupon, at 11:15 a.m., the subcommittee was adjourned.]

[The following statements, letters, and responses to questions were received for the record.]

**STATEMENT OF HONORABLE CLAUDE PEPPER
CHAIRMAN, SUBCOMMITTEE ON HEALTH AND LONG-TERM CARE
HOUSE SELECT COMMITTEE ON AGING
BEFORE THE SUBCOMMITTEE ON CENSUS AND POPULATION
HOUSE COMMITTEE ON THE POST OFFICE AND CIVIL SERVICE
NOVEMBER 20, 1985**

Mr. Chairman, I want to commend you for holding this very important hearing. I view the matters of the definition and effective measurement of poverty as pivotal areas for the Congress. After all, that is what the valuation of noncash benefits comes down to — the fair and impartial definition and measurement of poverty.

The poverty area is fraught with harmful and misleading stereotypes and misinformation, and ideological pitfalls. The Congress and the Executive Branch must proceed with care and caution and, above all, with fairness and balance. Let me expand on these points.

The Congress in 1964 adopted a fixed definition of poverty, based on data gathered in 1955 by the Department of Agriculture. These data were used to estimate that the average family of three or four, at that time, spent approximately one third of its income on food. This definition has remained in effect except for adjustments that take into account changes in price levels. The basic purpose of this approach has been to characterize what constitutes the economic need of a family and the resources required to meet that need.

While the Congress has continued to use this fixed definition of poverty, it has, from time to time, been concerned about the widening gap between the poverty standard and the median income. In 1964, the poverty standard was 42% of the median income, but it fell to 33% in 1973 and has remained very close to that level since then. The Congress has introduced the notion of "near-poor" in conjunction with some of its social program legislation. Another fixed measure of poverty is used by the Census Bureau in its reports about the money income and poverty status of families and individuals: those families with income below 125% of the poverty standard. For example, among the aged population in 1983, 14% were "officially" poor, but 22% were poor if one used the 125% of the poverty standard. Substantial progress has been made since the early 1960s in reducing official poverty among the elderly, but it is not as much as we'd thought or hoped. Too many elderly are precariously perched just above the poverty mark.

Let me elaborate further on the notions of fairness and balance as they relate to noncash income. To be fair, we have to count the in-kind benefits of the non-poor as well as the poor. For the non-poor, we need to count the stock options, the expense accounts, the tax shelters, the paid vacations, the employer-provided health and life insurance, and the employer-provided pension benefits. If one counted these in-kind benefits for families from all segments of the income distribution, such an analysis might well show a widening of the distance between the poor and the median than does money income data alone.

Another area, in the interest of fairness and balance, needs attention — that of after-tax income. The tax law adjustments enacted by Congress during the 1960s and 1970s reduced the Federal income taxes paid by the poor. The changes enacted since 1979 coupled with inflation have not helped the poor as much. In 1983, for example, 8% of all poor families were paying income tax, doubling the proportion paying since 1980 (4%). Among poor families with earned income, 15% paid income taxes in 1983, and 91% paid payroll taxes. The Joint Committee on Taxation estimated that the average poor family paid anywhere from \$500 to \$1400 of payroll and Federal tax in combination in 1982, depending on family size.

The Congress should call for improved and refined measurement of after-tax money income available to poor families to meet their basic needs, taking into account the impact of Federal and payroll tax. Also, the Congress should call for improved and refined measurement of the non-cash benefits accruing to families of all parts of the income spectrum, in order to assess whether the gap between the poor and non-poor is widening, and the extent to which the ability of the poor families is diminished in meeting their basic needs.

Nor can we take a static view of those who are impoverished; we must look ahead. For example, the elderly subgroups with the highest poverty rates are among those that are growing the most rapidly — women, the very old, and persons living alone. Although they are not among the most rapidly growing groups, Blacks are particularly vulnerable to poverty in old age, with a poverty rate about three times the rate of elderly whites. With these demographic patterns facing us, I trust that the Administration will reconsider its efforts to shift the Federal costs to families and

individuals who are the least able to afford them. One need only note the alarmingly escalating pace of Medicare copayments. Administration efforts to change benefit eligibility among the disabled was cruel, and the attempts to encourage states to require adult children and other relatives of Medicaid recipients to be financially responsible for their institutional care is unsound and unfair; the institutional elderly are very old, very ill and unlikely to have a strong network of close relatives. Their adult children, if they have any, are often nearing retirement themselves and are facing the prospect of reduced financial resources.

There are many negative portrayals of the poor, but the evidence from longitudinal studies of poor and near-poor families conducted by the University of Michigan from 1969 to the present clearly indicate that poverty for the vast majority of families has been a temporary condition, usually associated with death or divorce. Such changes have had an immediate impact of sharply curtailing the resources available to the families affected. Also, there is substantial evidence from the same studies that poverty and dependency have not been passed on from generation to generation. Rather, the majority of people (57%) at or near poverty as children exhibit marked upward mobility as young adults, moving well above the poverty line, and are not in a dependent state at all.

We in the Congress must continue to support longitudinal studies as well as one-time measures obtained from cross-sectional surveys such as those conducted by the Census Bureau. These two types of study will enhance our overall understanding about poverty. They will better enable the Congress to combat poverty more effectively and humanely, and in the process dispel damaging misinformation.

I commend this Subcommittee for its diligent efforts in monitoring the activities to address the definition and measurement of poverty. I also urge the Subcommittee to continue to ensure that these efforts are pursued with ideological neutrality.

I congratulate the Subcommittee, too, for its painstaking work, trying to achieve balance and fairness in the Census Bureau's statistical activities.

I hope that my remarks will be helpful in some modest way, providing further considerations for pursuing such a balance. Thank you, Mr. Chairman, for this opportunity to share with you and the distinguished members of the Subcommittee my views on these very crucial areas of concern.

STATEMENT FOR THE RECORD

Edward R. Roybal
Chairman, Select Committee on Aging,
U.S. House of Representatives

October 31, 1985

Hearing on the Valuation of Noncash Benefits
Subcommittee on Census and Population,
The Honorable Robert Garcia, Chairman

As Chairman of the House Select Committee on Aging, I am acutely aware of the need for accurate data concerning the sources of income for our elderly population. By highlighting the problems associated with the collection of noncash benefit data by the U.S. Bureau of the Census, today's hearing will focus the attention of Members of Congress on issues of utmost importance to low-income households, including many Older Americans.

A substantial portion of the Federal budget is currently directed to the provision of benefits and/or income assistance to elderly households. Whether paying social security benefits, funding low-cost housing, or providing food supplement assistance, these Federal programs represent an ongoing commitment to our Older American population. The collection of detailed information about the income of beneficiary households is the cornerstone of a policy which constantly seeks to better serve the interests of program participants.

It should be made clear, however, that at this time the data collected and evaluated by the Census Bureau must still be treated with a great deal of caution. The valuation of noncash sources of income and in-kind benefits is riddled with significant methodological and conceptual pitfalls. The Census Bureau itself recognizes these unresolved difficulties, characterizing such data as "exploratory." At best, the information available to us today must be considered a tool providing Congress with limited guidance as it carries out its policymaking function.

Unfortunately, there are interests outside the Census Bureau which would prefer to treat statistics on noncash benefits as a political end in itself rather than a means to accomplish appropriate policymaking functions. For this reason it is of utmost importance that the distinction between the Census Bureau's official statistics and such "exploratory" noncash benefit data be maintained and clearly delineated by separate publication. Further, Federal agencies must recognize that the use of such experimental data for the purpose of determining program participation and eligibility is inappropriate and contrary to the intent of Congress.

In conclusion, I would like to reiterate my confidence that the reliability of noncash income data will eventually improve to the point that Congress will be able to accurately assess the effectiveness of programs for low-income and elderly households in terms of the number of households which have been reached by such programs as well as the remaining need for increased assistance. I commend you for holding this hearing to point out to our colleagues in Congress that any such degree of reliability has not yet been achieved.



Congressional Caucus for Women's Issues

Statement of
Congresswoman Patricia Schroeder

&
Congresswoman Olympia Snowe

Post Office and Civil Service
Subcommittee on the Census and Population
October 31, 1985

As the co-chairs of the Congressional Caucus for Women's Issues, we would like to thank you for the opportunity to participate in this hearing.

The valuation of non-cash benefits is an issue of importance to the Caucus and to all women. Any change in the calculation of poverty will undoubtedly have an effect on the 40% of female-headed households living in poverty.

Almost half of all female-headed households depend on at least one means-tested non-cash benefit, such as food stamps, child nutrition assistance, or public housing. Even though these families have the benefit of federal assistance programs, many of them are just getting by.

Seventy percent of food stamp recipients live in female-headed households. The Special Supplemental Food Program for Women's, Infants, and Children (WIC) currently serves 10.2 million women and children nationally. Women head two-thirds of all households living in public housing facilities.

These numbers cut across all racial and ethnic lines, but they are worse for minority women. In 1983, fifty-four percent of black and Hispanic female-headed households lived in poverty.

Young women and their families, unfortunately, are not the only ones who bear the weight of poverty. Older women account for 71% of the elderly poor. In fact, in 1983, over 2.6 million older women had incomes below poverty level.

It is estimated that by including non-cash benefits as income, the poverty level will decrease by almost fifty percent.

But looks can be deceiving, and we know that this reduction is really not the truth. Changing the definition of poverty will not change the reality of how these families live.

The artificial lowering of the poverty rate fools us into believing that we have won the war on poverty. It fools us into thinking that because a family is no longer below the poverty line, they are better off. The problem we must address is not the definition of poverty, but the existence of poverty.

Even though it may appear that the numbers of people living in poverty have dropped, there will still be women in our cities, in our suburbs, and in our rural areas who can barely manage to feed and house their families.

Poverty in America is a serious problem, and the techniques proposed by the Census Bureau to evaluate poverty should not be taken lightly. Until we know further about the validity of the Census Bureau's techniques, we should move ahead with caution. Not only should we consider the immediate definitional change that may stem from this investigation, but we must look at the resulting long-range policy implications as well.

What will happen to domestic food, health, and housing programs if the new definition of poverty shows the numbers of people living below poverty decreasing?

These are serious questions and they deserve thorough study. We urge the Census Bureau to consider not only the methods by which they study this question, but the ramifications of modifying the definition of poverty as well.

Thank you, Mr. Chairman, for the opportunity to discuss the relationship the revaluation of poverty has to women. We look forward to working with your Subcommittee on this important issue.

SUBMITTED BY KENNETH V. DALTON, ASSOCIATE COMMISSIONER,
PRICES AND LIVING CONDITIONS, BUREAU OF LABOR
STATISTICS

Homeowners' Shelter Cost in the Consumer Price Index

This statement, provided by the U.S. Bureau of Labor Statistics (BLS), describes in some detail the background and issues leading up to the BLS decision to revise the methods used to measure homeowner shelter costs in the Consumer Price Index (CPI). It discusses primarily the decision process, but because the change was a technical one, made on the basis of technical merit, some brief technical background is also provided.

Prior to 1983, the homeowners' shelter costs within the CPI were represented by five elements: (1) house prices, (2) mortgage interest costs, (3) property taxes, (4) homeowner insurance charges and (5) maintenance and repair costs. These are the costs associated with purchasing and maintaining a physical asset--namely a house.

The basic concept of the CPI is a measure of price change for goods and services bought by consumers for consumption. Investment purchases, such as stocks and bonds, are conceptually out of scope and excluded from the index. Consumers do not consume a house at the time of its purchase; rather, they consume the shelter services provided by the house over a period of time. The house is, therefore, a capital asset which provides a service over a long period of time, not a one-time consumption item. Thus, the cost of the shelter service provided by that asset is the conceptually appropriate measurement objective for the CPI.

The BLS explored a number of difficult conceptual and operational issues in great detail to determine how best to estimate the cost of shelter for owner-occupied dwellings. This research led to the determination that a so-called rental equivalence method was best. This method measures the rate of change in the amount an owner would need to pay in order to rent on the open market the same accommodations now occupied as owner. It is based on actual market rents collected from a sample of renter-occupied housing units that are identified to be representative of owner-occupied housing.

Although some dimensions of this issue reach back to the most early years of the CPI, a good place to begin this discussion is with the report, The Price Statistics of the Federal Government, prepared by the Price Statistics Review Committee of the National Bureau of Economic Research at the request of the Bureau of the Budget and issued in late 1960. This report was the subject of a series of hearings by the Joint Economic Committee beginning January 24, 1961. Among the report's recommendations was one that BLS investigate a method measuring the price of services provided by owner-occupied housing and suggested the development of a rental equivalence method.

This recommendation was too late for inclusion in the CPI revision then under way, but when BLS began the next major revision of the CPI in 1970, it vigorously investigated better measures for homeowner shelter

costs. A number of technical papers were prepared and circulated widely among users and experts in government, business, labor, and academia.

Among these papers were the following:

- "On the Measurement of Shelter Costs for Homeowners in the Consumer Price Index," August 9, 1972
- "CPI Revision: Option Paper on the Treatment of Housing Prices," October 1973
- "Measurement in the Consumer Price Index of the Cost of Shelter for Homeowners," December 31, 1973

Extensive discussions were held under the auspices of the Subcommittee of Economic Statistics of the Economic Policy Board, within the two BLS technical advisory committees--the Labor Research Advisory Committee and the Business Research Advisory Committee--and with individual economists expert in price measurement. Most technical experts in these forums favored a change in the process. The major exception came from labor union researchers on the BLS Labor Research Advisory Council. Even among the majority who favored a change, however, there was considerable uncertainty over the best strategy to adopt in this new area and over the operational feasibility of some options.

The issues relevant to measuring homeowner shelter costs were also summarized in an article by Commissioner Julius Shiskin, "Updating the Consumer Price Index--An Overview," Monthly Labor Review, July 1974. Although additional public discussion followed, no consensus developed.

Uncertainty over the relative merits of the competing alternatives and a pressing need to complete the CPI revision led Commissioner Shiskin to announce on April 15, 1977, that the old method of homeownership would be continued. At the same time, he also directed his staff "to continue research in this area ... and to publish research papers and experimental empirical work."

When the CPI revision was completed in February 1978, the associated documentation (The Consumer Price Index: Concepts and Content Over the Years, Report 517) again described the homeowner shelter cost issue and summarized the views of the various advisory bodies on the matter. Effective with the 1978 revision, BLS also began publishing indexes for two different groups of the populations. One for Urban Wage Earners and Clerical Workers (CPI-W) continued the reference population from the 1964-1977 CPI. The other CPI was a broader measure covering All Urban Consumers (CPI-U).

BLS continued to conduct extensive investigations of homeowner shelter cost measurement. At the time, rapid inflation and sharp rises in house prices and mortgage interest rates greatly accentuated the practical implications of homeowner shelter cost measurement. These issues were discussed frequently by BLS before the Joint Economic Committee of the United States Congress--for example, on May 25, 1979. These discussions were followed by a request on June 12, 1979, from the Chairman of the Joint

Economic Committee, Senator Lloyd Bentsen, for a BLS report on the matter. BLS responded on August 2, 1979, and the issues were discussed further by Commissioner Norwood before the Committee on August 3, 1979. Throughout this period, BLS pointed to the need to implement an improved homeowner shelter cost methodology but always cautioned that the evidence and consensus was not yet in hand to choose among the various competing alternatives.

By late 1979, BLS had developed some experimental measures of homeowner shelter costs. These were presented by Commissioner Norwood before the Task Force on Inflation of the Committee on the Budget of the U.S. House of Representatives on December 14, 1979. That task force and especially its Chairman, Congressman Simon, urged BLS to move more rapidly toward implementing a better homeowner component for the CPI. These hearings continued on January 24, 1980, with a variety of witnesses urging a change in the CPI itself or a change in its use in escalation provisions. Representatives of organized labor continued to oppose any change.

Further extensive calculations by BLS produced, both historically and on a current basis, five experimental indexes using different technical approaches to improve the homeowner component of the CPI. These were an extension of the work presented to the House Budget Committee in December 1979. Beginning with the release of the December 1979 CPI in January 1980, BLS provided in both the "Consumer Price Index News Release"

and the CPI Detailed Report supplementary tables showing the measures of price change resulting from these experimental indexes. These experimental indexes were labeled CPI-U, X1 through CPI-U, X5. A BLS report ("CPI Issues," BLS Report 593, February 1980) documented these experimental indexes in detail and was widely distributed.

Soon, both empirical evidence and theoretical research at BLS made it clear that the best methodological approach was rental equivalence (the method used in the experimental CPI-U, X1). The results of this research were published in an article by BLS economist Robert Gillingham, "Estimating User Cost of Owner-occupied Housing," Monthly Labor Review, February 1980.

On the strength of this empirical work, BLS formulated a plan to develop the data collection and other operational aspects of a rental equivalence measure. This proposal was submitted as part of the FY 1982 budgetary process. It received full review in the Department of Labor and Office of Management and Budget (OMB) and was included as a specific program change in the President's FY 1982 budget submitted to Congress in January 1981.

On January 29, 1981, Commissioner Norwood testified before the Committee on Appropriations of the United States Senate on the use of the CPI as an escalator. Among the topics she discussed were the experimental CPI's and the BLS proposal to pursue a rental equivalence design.

The President's submission of the FY 1982 budget was accompanied by a separate Report on Indexing Federal Programs from the Chairman of the Council of Economic Advisors Charles Schultze and Director of OMB, James McIntyre, and directed to the Senate and House Committees on the Budget. The premier recommendation of this report was that all Federal expenditure escalation provisions use the CPI-U, X1, the rental equivalence experimental measure.

The Task Force on Entitlements, Uncontrollables, and Indexing of the House Budget Committee held another set of hearings during March 1981. Among the topics reviewed was the need to change the homeowner shelter component of the CPI. Among the expert witnesses, there was widespread, although not unanimous, endorsement for a change. (The new OMB Director, on the other hand, argued that the upward bias of the immediately preceding years was about to be partially offset by a downward bias. He urged that, although the change should be made, it should be delayed until a more balanced result had been achieved.)

The General Accounting Office issued a report (PAD-61-12) on April 16, 1981, which recommended that BLS adopt either a rental equivalence or nominal outlays approach to homeowner shelter costs and urged Congress to appropriate the funds needed for implementation.

By the fall of 1981, four things had become clear and widely accepted. First, the old measure for homeownership was giving misleading signals about the course of inflation. For example, while the official

CPI-U with the old homeownership method recorded an 11.0 increase for the 12-month period ended in September 1961, the CPI-U, X1 experimental measure based on a rental equivalence measure for homeownership rose only about four-fifths as much--9.2 percent. Second, Federal expenditures were being driven up sharply by escalation provisions using the CPI. Third, the quality of the data on house prices and mortgage interest rates was deteriorating. Fewer and fewer houses were being purchased under FHA auspices--the source for CPI house-price data. And the fixed-rate, fixed-term mortgage, which served as the basis for CPI mortgage interest costs, was becoming very rare as multiple varieties of bought-down and variable-rate mortgages began to dominate. Fourth, a clear consensus had formed that some change was needed to the homeownership shelter component, since its ability to measure what was actually happening to housing costs under then-current conditions was seriously limited. Most technical experts generally favored a rental equivalence measure. The one major group continuing to oppose any change to the homeowner shelter costs in the CPI was the BLS Labor Research Advisory Council composed of labor union research representatives.

Finally, on October 27, 1981, Commissioner Norwood announced that BLS would convert the CPI-U to a rental equivalence measure for homeowner costs effective with the CPI-U for January 1983. The CPI-W would be converted to the new method effective with the January 1985 data. This announcement was consistent with general BLS practice of giving at least 1-year's notice before making a major methodological change. The change also meant that

the CPI-U for the years 1983 and 1984, the first years the index was to be used in the escalation of personal income tax brackets and exemptions, would be on the new basis. The longer period of notice for the CPI-W was provided because it continued to be the primary index used in cost-of-living adjustments in collective bargaining agreements and in the escalation of government entitlement payments. It was felt that sufficient time needed to be provided for these users to adapt to the change.

This methodological enhancement was reviewed by Commissioner Norwood with the United States Congress in a number of forums, including the following:

- * November 6, 1981, the Joint Economic Committee of the United States Congress
- * November 10, 1981, the Committee of Post Office and Civil Service, Subcommittee on Census and Population, U. S. House of Representatives
- * November 17, 1981, the House Budget Committee Task Force on Indexing, Entitlements, and Uncontrollables, U. S. House of Representatives
- * December 8, 1981, Committee on Education and Labor, Subcommittee on Labor Management Relations, U. S. House of Representatives
- * March 3, 1982, Committee on the District of Columbia, Subcommittee on Fiscal Affairs and Health, U. S. House of Representatives
- * April 20, 1982, Committee on Governmental Affairs, Subcommittee on Congressional Operations and Oversight, United States Senate

In addition, BLS provided extensive public announcement and documentation. Every "CPI News Release" and CPI Detailed Report contained a notice of the impending changes. An article by Robert Gillingham and Walter Lane, "Changing the Treatment of Shelter Costs for Homeowners in the CPI," was published in the Monthly Labor Review for June 1982. Full technical documentation on the procedure was published in the CPI Detailed Report for January 1983. Short explanations for the general public were included in two documents, "Questions and Answers on Housing Costs and the CPI" and "Questions and Answers on Homeownership Costs."

It is established practice for BLS to publish "overlap" series for measures that undergo major revisions when it is possible to do so. In the case of the change to rental equivalence for homeowner shelter costs, there were two sets of such overlaps (besides the already published experimental indexes). During the first 6 months that the CPI-U used this new method (January 1983-June 1983), BLS published a CPI-U (Old Series) which used the old homeownership method. Since the biggest difference between the CPI-U and CPI-W during the years 1983 and 1984 was in their treatment of homeownership, the entire 1983-84 period also provided a type of "overlap" as well. Finally, during the January-June period of 1985, BLS published a CPI-W (Old Series) in addition to the CPI-W.

While the experimental series (CPI-U, X1) had measured lower inflation rates than the official CPI-U during a couple of very visible periods, there are no necessary or inherent features of rental equivalence that yield lower estimates of price changes. In fact, during the overlap

periods, the indexes using the new rental equivalence measures actually showed higher rates of inflation than did the indexes using the old method, as shown in the following table:

<u>Time Period</u>	<u>Population and Series Title</u>	<u>Homeowner Shelter Cost Method Used</u>	<u>Percent Change in All Item CPI</u>
12/82-6/83	CPI-U	Rental Equivalence	1.9
	CPI-U (Old Series)	Old	1.7
	CPI-W	Old	1.8
12/82-12/84	CPI-U	Rental Equivalence	7.9
	CPI-W	Old	6.9
12/84-6/85	CPI-U	Rental Equivalence	2.2
	CPI-W	Rental Equivalence	2.1
	CPI-W (Old Series)	Old	2.0

The actual transition to the new method was quite smooth, in large part owing to the open way it was done and the extensive public information effort. By the time the CPI-W was revised to the new method, the only concern was a mechanical one of providing adjustment factors of various sorts to parties in collective bargaining agreements that require such factors whenever a methodological change is made in the CPI. In keeping with established BLS policy, an adjustment factor was supplied to the parties to such agreements when both (or all) parties requested and defined the factor fully in writing to the BLS.

Bureau of Labor Statistics
U.S. Department of Labor
Washington, D.C.
December 16, 1985

DEPARTMENT OF HEALTH AND HUMAN SERVICES

SOCIAL SECURITY ADMINISTRATION

1875 CONNECTICUT AVENUE NW

WASHINGTON, D.C. 20006

June 15, 1981

FILED SRV-9

OFFICE OF
RESEARCH AND STATISTICS

Timothy M. Smeeding
 ASA/Census Research Fellow
 U.S. Bureau of the Census
 SRD Room 3574 FB# 3
 Washington, D.C. 20233

Dear Tim:

Thank you for sharing with me your plans for the technical paper on "Alternative Methods for valuing In-Kind Transfer Benefits: Their Impact on Poverty and Income Status".

Assuming your Report outline will be discussed at the Inter-agency Committee on Income Distribution, I am sending these comments along to Committee Chairman Milo Sunderhauf too. Most of my comments will not be new to you, but they bear repeating.

My pleasure at the changes planned for Report 1 turns out to have been premature. What point is there in separating incidence for means-tested from non-means tested programs only to ignore it when attempting valuation? Regardless of the method used to assign a value there can be no justification for treating Medicare as on a par with Medicaid, especially while omitting any value for employment-related health insurance! Moreover, displaying program values as fractions of the poverty line implies that such programs are, or should be, directed primarily at the poor. But surely you agree that Medicare does not have that as intent or achievement? The only point I see in apposing Medicare to Medicaid would be for overall consideration of how health care is (or should be) financed. That however, is not the purpose of this report, and in any case would require consideration of other public and private health insurance programs as well.

May I point out that merely referring to other programs or foot-noting exclusions does not per se legitimize misprision. For example the statement in the introduction, "Because of these biases, we will not present any data on the impact of in-kind

transfers on the income size distribution" is deliberately misleading or unbelievably naive. Relating estimated amounts of in-kind benefits to "poverty status and income levels" and to the poverty criterion itself is indeed "assessing impact on the income size distribution". What is the poverty line, or multiples of it, but an overall normative assessment of the income distribution?

It is both unfair and inaccurate to rationalize "omission" of in-kind income from the poverty matrix initially and its presumed addition now on the basis of "the growth in such items since 1975". Omission of such items reflects a conscious decision made on two counts: 1) the income adequacy benchmark ought to conform to the existing data base; and 2) adding non-money items only for the poor, in the form of means-tested public programs, was unacceptable. Accordingly in Section III-B, along with the critical review of "work of Browning, CBO, Hoagland, Paglin, Peskin, Smeeding and others" there might at least be some reference to my own statements on the subject. I was the first to point out how we'd need to change the poverty criterion if we changed the definition of income, and certainly one of the few to press for the "funds released" concept. I have neither time nor inclination to make a complete citation list, but at least the first four efforts on the attached list should be acknowledged. I added the fifth reference (to my 1967 report on "Counting the Poor: Before and After Federal Income-Support Programs", because it marked the first time several income-support programs were identifiable in the CPS and included a brief discussion on the inevitable limitations of such data as collected in the CPS.

And so I come to perhaps the greatest reservation I have to the proposed report by a Statistical agency--one I expressed at the Washington Statistical Society meeting on May 19. Much of the reservation some of us have expressed on the procedures you propose may reflect substantive difference in economic theory on what constitutes income, the meaning and policy implication of normative measures of adequacy, and the like. But the basic problem may well concern the limitations and treatment of the underlying statistical data.

It is not just the difficulty in filling in gaps for items (or programs) which we don't try to collect. There is serious question about gaps and errors in data we do collect. For some time now even for money income sources, for which the Census has pioneered in data collection, there has been concern for the growing rate of omissions. Elaborate imputation algorithms have been developed to compensate for increasing degree of nonreporting throughout the income spectrum. Imputation cannot be attempted for some money sources because there are no acceptable controls.

But even where benchmarks exist, there are survey errors not only in underreporting for which we try to adjust, but also in misreporting or overreporting for which we do not. Misrepresentation of SSI payments as OASDHI cash benefits is one such item. Inability to distinguish between State and Federal SSI payments is another. The difference between varying units of account for specific income programs and the CPS family reporting unit is another source of difficulty.

The situation with nonmoney items for the collection of which the Census has as yet only limited experience is apparently worse. Your own May 19 handout at WSS showed the number of CPS beneficiaries of non-public assistance Medicaid exceeding the putative control number by 36 percent, while public assistance beneficiaries as reported in CPS were understated by anywhere from 42 percent in the case of SSI blind and disabled, to 11 percent for the SSI elderly. Recipients of free or reduced price school lunch according to CPS numbered 12 percent fewer than the control totals, whereas paid lunch recipients a la CPS numbered nearly half again as many as the "true" number.

The putative controls may well be off, but how does that resolve the difficulty? Combining categories may lessen the discrepancy but that's just masking the problem. There may well be something wrong with the question: Any parent paying even a reduced price for school lunch per child may consider it as "paid" rather than free or reduced. Others accepted on public assistance rolls only because of medical indigency might report Medicaid but not be counted public assistance recipients because they did indeed get little or no cash assistance payments. Such statistical biases we might correct by more effort for both interviewer and respondent in clarifying and probing questions. Unfortunately we have not yet come to that point. And indeed we might well review in like fashion our established procedures for handling responses to money income questions! Adjusting for errors in only one direction may well distort the presumed relationships in resources within as well as among population segments. And how far indeed may we tamper with responses without invalidating the results?

As I acknowledged, I have little new to add to what I've said many times--but I now feel even more strongly that the present plans are a mistake. Collecting and analyzing statistics is a job for the Census Bureau and a job they do very well. Positing economic assumptions leading to policy implications from the data, particularly in a new series, is quite another role. There may well be a difference between what you (or I) as economists might like to conclude from the data, and what an official statistical report may properly say.

Clearly up to now I have failed to persuade you that what you propose is inappropriate. I now feel in addition that some of your procedures are statistically unacceptable. What position the Interagency Committee can or will take neither of us knows.

We must remember that SIPP was planned to deal with some of the problems that now show up in the March 1980 CPS income questions. Not acknowledging the difficulties that still need to be resolved is a disservice to all of us in government. For my part, if you persist in assessing or expanding the official poverty income measure, as its unfortunate creator I believe there should be a place in the "report" where I can respond!

Sincerely,

Mollie Orshansky

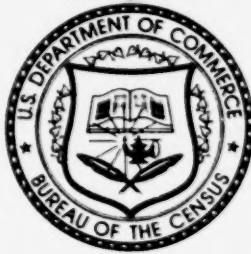
cc: Milo Sunderhauf
Gordon Green
John Coder Census Bureau
Arno Winard

Cameron Whiteman SIPP
Charles Lininger

Jane Ross
John Carroll ORS
Dave Podoff

BUREAU OF THE CENSUS

CONFERENCE ON THE MEASUREMENT OF NONCASH BENEFITS



DECEMBER 12 - 14, 1985

FORT MAGRUDER INN & CONFERENCE CENTER

WILLIAMSBURG, VIRGINIA

P R O G R A M M E

THURSDAY, DECEMBER 12, 1985

3:00 P.M. - 6:30 P.M. REGISTRATION LOBBY
 6:30 P.M. - 8:00 P.M. DINNER HILL'S REDOUBT
 8:00 P.M. - 9:00 P.M. EVENING SESSION

PRESIDING. Gordon W. Green, Jr.
 Assistant Division Chief
 Population Division
 Bureau of the Census

WELCOME ADDRESS John G. Keane
 Director
 Bureau of the Census

STATEMENT OF PURPOSE AND
 REVIEW OF PAST WORK . . . Roger A. Herriot
 Senior Demographic and
 Housing Analyst
 Bureau of the Census

OVERVIEW OF CONFERENCE
 AGENDA. Gordon W. Green, Jr.

9:00 P.M. - 10:00 P.M. RECEPTION GRANT'S REDOUBT

FRIDAY, DECEMBER 13, 1985

7:30 A.M. - 8:30 A.M. BREAKFAST VERANDA DINING ROOM
 8:00 A.M. - 9:00 A.M. REGISTRATION. LOBBY
 8:30 A.M. - 12:30 P.M. PLENARY SESSION JEFFERSON DAVIS AMPHITHEATRE
 FACILITATOR Gordon W. Green, Jr.

INTRODUCTION OF AUTHORS
AND DISCUSSANTS

"STATISTICAL DEFINITION OF INCOME"

8:30 A.M. - 8:55 A.M. AUTHORS Lawrence Summers
 Department of Economics
 Harvard University
 David Ellwood
 John F. Kennedy School of
 Government
 Harvard University
 8:55 A.M. - 9:05 A.M. DISCUSSANT. Alan Blinder
 Department of Economics
 Princeton University
 9:05 A.M. - 9:15 A.M. DISCUSSANT. Albert Rees
 Sloan Foundation
 9:15 A.M. - 9:20 A.M. AUTHORS' REJOINDER

"METHODS OF MEASURING NONCASH BENEFITS"

9:20 A.M. - 9:45 A.M. AUTHOR. Barry E. Chiswick
 Department of Economics
 University of Illinois
 9:45 A.M. - 9:55 A.M. DISCUSSANT. Henry Aaron
 Brookings Institution
 9:55 A.M. - 10:05 A.M. DISCUSSANT. Edgar A. Browning
 Department of Economics
 Texas A & M University
 10:05 A.M. - 10:10 A.M. AUTHOR'S REJOINDER
 10:10 A.M. - 10:30 A.M. COFFEE BREAK

P R O G R A M M E

FRIDAY, DECEMBER 13, 1985

"STATISTICAL COMPARABILITY USING ALTERNATIVE METHODOLOGIES"

10:30 A.M. - 10:55 A.M. AUTHOR. Michael Ward
Unicon Research Corporation

10:55 A.M. - 11:05 A.M. DISCUSSANT. Eugene Smolensky
University of Wisconsin

11:05 A.M. - 11:15 A.M. DISCUSSANT June O'Neill
Urban Institute

11:15 A.M. - 11:20 A.M. AUTHOR'S REJOINDER

"USE OF POVERTY STATISTICS IN FEDERAL LAWS AND PROGRAMS"

11:20 A.M. - 11:45 A.M. AUTHORS Eric Hanushek
Congressional Budget Office

Robert Williams
Congressional Budget Office

11:45 A.M. - 11:55 A.M. DISCUSSANT. Wendell E. Primus
House Ways & Means Committee

11:55 A.M. - 12:05 P.M. DISCUSSANT. Kenneth Clarkson
Law and Economics Center
University of Miami

12:05 P.M. - 12:10 P.M. AUTHORS' REJOINDER

12:10 P.M. - 12:30 P.M. ASSIGNMENT TO
AFTERNOON SESSIONS . . . Gordon W. Green, Jr.

12:30 P.M. - 2:00 P.M. LUNCHEON. HILL'S REDOUBT

P R O G R A M M E

FRIDAY, DECEMBER 13, 1985

2:00 P.M. - 5:30 P.M. FORUM

GROUP 1 LEADER Roger A. Herriot
Conference Room. JEFFERSON DAVIS AMPHITHEATER

GROUP 2 LEADER Gordon W. Green, Jr.
Conference Room. KEARNY'S LOUNGE

GROUP 3 LEADER John F. Coder
Conference Room. LEE'S REDOUBT

GROUP 4 LEADER John McNeill
Conference Room. JACKSON'S REDOUBT

GROUP 5 LEADER Katharine Newman
Conference Room. GRANT'S REDOUBT

5:30 P.M. - 6:30 P.M. CONFERENCE MIXER GRANT'S REDOUBT
(Cash Bar)

6:30 P.M. - 8:00 P.M. DINNER VERANDA DINING ROOM

SATURDAY, DECEMBER 14, 1985

7:30 A.M. - 8:30 A.M.	BREAKFAST VERANDA DINING ROOM
8:30 A.M. - 12:30 P.M.	PLENARY SESSION JEFFERSON DAVIS AMPHITHEATRE
	PRESIDING Gordon W. Green, Jr.
	GROUP REPORTS
8:30 A.M. - 8:45 A.M.	GROUP 1
8:45 A.M. - 9:00 A.M.	GROUP 2
9:00 A.M. - 9:15 A.M.	GROUP 3
9:15 A.M. - 9:30 A.M.	GROUP 4
9:30 A.M. - 9:45 A.M.	GROUP 5
9:45 A.M. - 10:15 A.M.	COFFEE BREAK AND CHECK OUT
10:15 A.M. - 12:15 P.M.	OPEN DISCUSSION AND COMMENTS
12:15 P.M. - 12:30 P.M.	CLOSING REMARKS C. Louis Kincannon
12:30 P.M. - 1:30 P.M.	LUNCHEON VERANDA DINING ROOM

STATEMENT OF PURPOSE

One of the most important responsibilities of the Census Bureau is the collection and publication of data on the income and poverty status of the U.S. population. These data are widely regarded as being among the most useful data available to measure the distribution of economic well-being.

From the beginning, the income and poverty data published by the Census Bureau were based on money income only. In the past few years, however, analysts have recognized that the U.S. population receives very substantial amounts of noncash income. At the direction of the U.S. Congress, the Census Bureau published in 1982 a technical paper that, for the purpose of estimating the number of persons in poverty, assigned dollar values to certain government noncash benefits. Because there was no "best" method of valuing benefits, the Census Bureau published nine different estimates based on three different groupings of benefits and three different methods of valuing the benefits.

Although attention has been focused on poverty estimates, the issue of valuing noncash benefits is important for all measures of the distribution of income. The implications of adopting revised methods of preparing income and poverty estimates are very great, and it is essential that all present and potential users of income and poverty data have the opportunity to comment and counsel us on this issue.

This conference is designed to provide a wide variety of academic, private sector, and government researchers, as well as representatives from public interest groups and interested Congressional committees, an opportunity to learn about the issues involved and to make their own views known to the Census Bureau. An outline of the conference will be presented at our Thursday evening session. The Friday morning session will feature presentations of papers on four primary issues. Each paper will be formally discussed by two discussants. The Friday afternoon session will be comprised of five concurrent workshops, and a plenary session devoted to group discussion will be held Saturday morning. The design was adopted to insure that all conference attendees will have an opportunity to express their views and get those views into the record.

Responses to Questions
from
Subcommittee on Census and Population
to
Roger A. Herriot
U.S. Bureau of the Census
at
Hearing on Valuation of Noncash Benefits
October 31, 1985

QUESTION 1

It seems there has been no research on how concepts of valuation techniques have been operationalized. You've mentioned that outside experts have reviewed and evaluated the valuation techniques and that the purpose of the December conference is to evaluate the techniques. These are external sources of evaluation. What is your opinion on a continuous internal research for the Census Bureau to undertake to evaluate and improve the ways in which valuation techniques are derived and operationalized?

RESPONSE

We agree that a more intensive research program is needed to examine the definition of income and to investigate procedures for assigning values to noncash benefits received both by the poor and the nonpoor. It is wrong to say that we have conducted no research in this area. Aside from the extensive descriptions of the problems and complexities of valuing noncash benefits that are contained in our technical papers, we have conducted research on the valuation of employer-provided benefits and we have developed procedures for estimating taxes paid. Work in these two areas represents important contributions toward broader measures of income and measures of economic well-being.

QUESTION 2

Directive No. 15 of the Statistical Policy Handbook provides standard classifications for recordkeeping, collection, and presentation of data on race and ethnicity in Federal program administrative reporting and statistical activities. Although the race and ethnic standards are set by this directive the Census Bureau holds conferences opening up discussion for recommendations on how to improve the ways in which race and ethnic statistics are to be collected.

Directive No. 14 defines poverty for statistical purposes. The directive states,

"For the years 1959-1968 the statistics on poverty contained in the Census Bureau's Current Population Reports, Series P-60, No. 68, shall be used by all executive departments and establishments for statistical purposes. For the years 1969 and thereafter, the statistics contained in subsequent applicable reports in this series shall be used."

best copy available

This directive essentially lays the responsibility on the Census Bureau in evaluating the quality and the appropriateness of the data on poverty.

Why is the Bureau not taking the responsibility as it is doing with race and ethnic statistics in evaluating the quality and the appropriateness of the noncash data series?

RESPONSE

The Census Bureau has assumed the same degree of responsibility for evaluating the quality and appropriateness of data on poverty and race/ethnic origin. The Office of Management and Budget (OMB) has the responsibility for setting the definition of poverty and the classification of race and ethnic categories. The Census Bureau has the responsibility to collect data to implement these definitions. In both cases the Census Bureau has conducted research on how to obtain the most reliable information from respondents in order to make the best classification. We have not questioned the definition of poverty, just as we have not questioned the race/ethnic classifications designated by OMB.

QUESTION 3

Please comment on the severe criticisms of Ms. Mollie Orshansky, the creator of the poverty line, leveled at the Smeeding methods (see Enclosure A)? Ms. Orshansky states, for example, in a June 15, 1981 letter to Dr. Smeeding, "Regardless of the method used to assign a value there can be no justification for treating Medicare as on a par with Medicaid, especially while omitting any value for employment-related health insurance!"

Orshansky states the problem is even greater than the procedures used: "...the basic problem may well concern the limitations and treatment of the underlying statistical data. It is not just the difficulty in filling in gaps for items (or programs) which we don't try to collect. There is serious question about gaps and error in data we do collect."

"Clearly up to now I have failed to persuade you that what you propose is inappropriate. I now feel in addition that some of your procedures are statistically unacceptable." I would appreciate your comment on Ms. Orshansky's statement, because I am concerned that many of the issues that she raised in 1981 have still not been addressed.

RESPONSE

Given that the purpose of Professor Smeeding's work was to develop methods of valuing noncash income for the purpose of exploring the effect of a revised income definition on estimates of the number of persons in poverty, we do not agree with Ms. Orshansky that there can be no justification for treating medicare on a par with medicaid. For the purpose of the undertaking, it was appropriate to value all of the noncash benefits that had a substantial effect

on the total resources of low-income persons. While medicare is not aimed toward the poor, it has had a significant effect on their well-being. Since it is not a means-tested program, medicare provides health coverage to some low-income persons not eligible for medicaid as a result of this program's resource tests.

Ms. Orshansky's objection to exclusion of the value of employer-related health insurance coverage could be extended to a variety of other noncash benefits received from both private and public sources. We need to determine which of the many noncash benefits should be included as income for purposes of measuring poverty.

We have not been given a specific list of Ms. Orshansky's concerns about statistical gaps and errors and about statistically unacceptable procedures. There is a good chance that we would agree with many of her points and, in fact, we have attempted in our publications to alert users to the major technical problems that exist. We would not agree, however, that these problems are so serious that we should not have published the experimental estimates. The project was beneficial on two levels. First, by presenting several methods of valuing noncash benefits and explaining the rationale and limitations of each method, it provided the basis for an informed discussion of the issues and the development of improved methods over time. Second, the publication provided a range of estimates of the effect on the poverty count of including noncash benefits in the definition of income.

QUESTION 4

You state at the conclusion of your testimony that the Census Bureau is not responsible for examining or defining the poverty thresholds. As a respected statistician, I would like your views on why the poverty thresholds should not be revised to reflect your new definitions of income?

Using the market value approach and selecting all non-cash benefits as income, your last technical paper indicates that poverty rate would drop about one-third. What would happen if you revised the poverty thresholds to take into account your new income definitions?

RESPONSE

I am not testifying as a statistician independent of my position at the Bureau of the Census; therefore, it is not practical for me to separate my position on these issues from those of the agency I represent. Respected statisticians have expressed differing views as to the appropriateness of applying the existing poverty thresholds to a definition of income that includes the value of selected noncash benefits.

QUESTION 5

Apart from the problems of assigning monetary values to noncash benefits, you have testified (p.10) that the Census is aware of problems in the estimated numbers of people receiving such benefits and is modifying its methods of correcting missing data. It would seem that getting the numbers of beneficiaries right is at least as important as assigning cash values to their benefits. To what extent are the experimental poverty counts "filled in" through computer simulation? For example, do Census computers--

--randomly assign nonresponding families as receiving AFDC benefits merely because they resemble other welfare families?

--count Medicaid benefits for teenagers in the income of welfare families who reside in states that do not cover teenagers under Medicaid, even though the children are obviously not covered?

--count the value of school lunches even for days when children are absent from school?

--credit families with a year's worth of housing benefits even if they only lived in public housing for a month?

To what extent are these kinds of problems correctable? How much do they skew the experimental poverty estimates?

RESPONSE

The first portion of your concern in Question 5 is about the problem of survey nonresponses and procedures used to "fill in" or adjust for these problems. The March CPS, the source of our annual income and poverty estimates, is subject to nonresponses to the income questions. Since this survey relies on voluntary cooperation, respondents can refuse to answer the questions. Refusals are the main cause for survey nonresponses; however, nonresponses may also result from lack of knowledge by the respondent. The nonresponse rate varies somewhat by the income source. For example, about 11 percent of the estimate of AFDC recipients for 1984 was based on procedures that assigned values for missing response compared to 16 percent for self-employment income. About 2.5 percent of the nonrespondents to the question on AFDC was assigned as recipients. The rate of 2.5 percent was equal to the AFDC reciprocity rate among persons who did respond to the AFDC question. This adjustment for nonresponse does not alter any answers given by respondents. Based on our research we have found that the CPS estimate of AFDC, even after adjustment for nonresponses, is well below independent estimates based on administrative sources.

The second portion of your concern in Question 5 involves noncash valuation procedures. It is true that some teenage children may not be covered by Medicaid even though they are part of a family containing persons that are covered. The coverage of children aged 15 and over is obtained directly from responses to survey questions that ask which family members are part of a Medicaid unit. As

is the case with the other questions, we accept these responses as truth. In cases of nonresponse to the medicaid coverage question, we assign values for the missing responses. These procedures do not account for the state of residence and may, therefore, assign coverage to some persons incorrectly. While procedures could be developed to account for states that do not cover certain teenagers under medicaid, the effect on poverty estimates would be slight. The estimation procedures for assigning the noncash value for school lunches account for days missed by assuming 163 days of attendance rather than the full number of 180 school days. The assignment of a full year's worth of public housing benefits to part-year residence does occur in our noncash valuation procedures. We also assign a value of zero to households that resided in public housing during the year but were not living in public housing at the time of the interview. These errors probably tend to balance out somewhat since the number of households in public housing has been relatively stable.

QUESTION 6

Many federal programs allocate funds among states on the basis of their poverty populations as reported in the decennial census. If the Census definition of income changes to include noncash benefits, would this change state poverty counts? Both the CPS and SIPP are samples of the national population as a whole. Can they be used for estimating poverty counts at the state level? If not, where can Congress obtain such estimates? Would it be practical to change state funding allocations on the basis of computer estimates rather than actual counts? What questions about noncash benefits are being considered for inclusion in the 1990 Census?

RESPONSE

The allocation of some Federal funds among states and smaller geographic areas such as cities and counties is based in part on the Bureau of the Census estimates of the poverty population. The sole source of the poverty estimates for states and other smaller areas is the decennial census. The CPS and SIPP are not used for this purpose since the small sample sizes do not permit the derivation of statistically reliable estimates.

Any change in the definition of income would require collection of additional data in the decennial census. The valuation of noncash benefits and inclusion of these values as income for purposes of measuring the poverty in the census would have effects on the state poverty counts. The effect would depend on the valuation techniques used and whether or not the inclusion of these values was accompanied by revisions to the current poverty threshold values. In light of such changes, programs that provide funding based on the poverty statistics would be required to reassess their allocation procedures.

The 1990 Census National Content Test scheduled for 1986 contains questions covering food stamps, free or reduced-price school meals, energy assistance, medicare, medicaid, public and other subsidized rental housing, employer-provided health insurance plans, and employer-provided pension plans. Questions on the amount of benefits were included only for food stamps and energy assistance.

ANSWERS TO SUBCOMMITTEE QUESTIONS

BY GENERAL ACCOUNTING OFFICE

Committee Question

1. In your opinion can the Census Bureau conduct research on measurement of poverty?

GAO Responses

The Bureau of the Census has a long history of technical research in data collection, sampling, adjustments for nonresponses, and other areas of survey methodology and estimation. In the area of income and poverty measurement, the Bureau has recently conducted research on the development of the Survey of Income and Program Participation and on analysis strategies appropriate for these data. Further, they are currently investigating methods of valuing employer provided benefits. And, based on our review of the Census Bureau's Technical Papers 50, 51, 52, and 55 it is evident that the Bureau has conducted research related to altering the official cash income-based measure of poverty. They have produced a variety of estimates of poverty by (a) alternatively defining income as cash plus the value of government provided noncash benefits and by (b) using different methods (market value, recipient value, and poverty budget share value) for valuing the noncash components of income. So the Bureau definitely has the capability to conduct research on poverty measurement. Whether it has the desire to do so is less clear.

As we pointed out in our October 31 testimony, the Bureau has not altered its basic methodology since the initial Technical Paper (50) was released. In this sense, the Bureau has not conducted new research focused on the potential problems

associated with these methods -- nor have they examined alternative definitions of poverty other than those presented in Technical Paper 50. Many of the issues we raised in the testimony, could be explored empirically to gain a better understanding of the strengths and weaknesses of the methods underlying their estimates of poverty. We have insufficient information to judge whether the Bureau has adequate resources or staffing levels needed to conduct this additional research. But based on the Bureau's prior work in the area, as well as work in other areas, we would expect that they are well qualified to conduct additional research in this area.

Committee Question

2. In your opinion, how much should the Census Bureau be doing in empirical assessment?

GAO Response

As reflected in our testimony, there is a fair amount of uncertainty associated with the methods used by the Bureau; many of these concerns could be explored through additional research. However, without knowing staff capacity and fiscal constraints, it is difficult to make an absolute judgment on how much empirical assessment the Bureau should be conducting. Our review of Technical Papers 50, 51, 52, and 55 suggests that more research is needed. As such, we believe that the Bureau ought to go beyond merely reporting the possibility of conceptual, operational or computational pitfalls in their methods. Further, the Bureau's yearly estimates of poverty that include the value of non-cash benefits are frequently used by policy analysts and they are

reported to the general public through the media. Without knowing the magnitude and direction of potential distortions associated with the 52 concerns we have listed, policy makers and the public may be receiving misleading information on the nature and extent of poverty this country.

Our own work is still in the early stages, we believe it is likely, however that in order to examine the importance of these concerns, new data collection (e.g., side studies, pilot tests), reanalyses (using different analytical models), simulations or "sensitivity" analyses may have to be undertaken. While additional research and analyses may not resolve all uncertainties, at least users would be in a better position to provide appropriate caveats regarding the likely influence of technical imperfections.

The Bureau should not be expected to do all the research in this area. In fact, in our opinion, it would not be desirable for the Bureau to be the sole producer of research on valuing noncash benefits. In our testimony we stated that researchers outside the Bureau should be encouraged to contribute to empirical examinations of concerns. In an area as complex as valuing non-cash benefits many analytic decisions must be made in converting conceptual formulations into operational and computational procedures. As a means of gaining a broad understanding of the robustness of the Bureau's methodologies it is important to have their procedures examined in detail by analysts independent of the Bureau. One key issue that must be resolved is how this outside work could be solicited and funded.



UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, D.C. 20233
OFFICE OF THE DIRECTOR

December 2, 1985

Honorable Robert Garcia
Chairman, Subcommittee on Census and Population
Committee on Post Office and Civil Service
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

During the hearing on November 20, 1985, you requested information on the subject matter expertise of individuals participating in the Conference on Measurement of Noncash Benefits to be held in Williamsburg, Virginia, December 12-14.

I am enclosing information that fulfills your request. If you or your staff need additional information, please call me on 763-5360.

Best regards,

FREDERICK A. RUTH
Director
Office of Congressional Affairs

Enclosure

Classification of Conference Participants by Field of Expertise

Following is a list of the categories used to classify the participants; the names are listed in the attachment.

- I. Experts on Valuing Noncash Benefits:
 - A. General Experts on Noncash Benefits
 - B. Experts on Food Stamps
 - C. Experts on Medical Care
 - D. Experts on Housing
 - E. Experts on Employer Provided Benefits to the Non-Poor
- II. Experts on Federal Laws Providing Benefits to the Poor
- III. Experts on Statistical Definition of Income and Poverty
- IV. Experts on Poverty Among Minorities
- V. Other Experts in Economics and Demography
- VI. Bureau Executive Staff, Congressional Liaison, and Administrative Support Staff

Attachment

11/25/85

Attachment

Participants by Field of Expertise

CONFERENCE ON THE MEASUREMENT OF NONCASH BENEFITS

I. Experts on Valuing Noncash Benefits

A. General Experts on Noncash Benefits:

~~Gary Bass~~	Gordon Green	Robert Plotnick
Edgar Browning	Roger Herriot	Thomas Reilly
Eleanor Chelmsky	Anna Kondratas	William Scarbrough
Barry Chiswick	Jack McNeil	Timothy Smeeding
David Cordray	Judith Miller	Eugene Smolensky
Paul Cullinan	Morton Paglin	Harold Watts
Sheldon Danziger	Janice Peskin	Henry Aaron
Nancy Gordon		

B. Experts on Food Stamps:

Nancy Amidei
 Gary Bickel
 Kenneth Clarkson
 Robert Greenstein
 William Hoagland

C. Experts on Medical Care:

Larry Atkins	Roberta Spohn
Anthony Knettel	Paul Starr
Steve Meskin	Harold Wallach
~~Robert Meskin~~	Bernard Warach

D. Experts on Housing:

John Weicher
 Paul Burke
 Edgar Olsen

E. Experts on Employer Provided Benefits to the Non-Poor

Emily Andrews	Enrique Lamas	Paul Ryscavage
Sheldon Haber	Eugene Moyer	Jean Salter
Eva Jacobs	Nancy and Richard Ruggles	Denton Vaughan

II. Experts on Federal Laws Providing Benefits to the Poor

~~Donald Baker~~	Eric Hanushek	Wendell Primus
Richard Bavier	Kathryn Higgins	Pat Ruggles
D. Lee Bawden	Tom Joe	Isabel Sawhill
Gary Burtless	George Omas	Barry Van Lare
Lillian Fernandez	Michael Levy	Roberton Williams
Gordon Fisher	Ruth Messinger	Millard Wyatt

Attachment

III. Experts on Statistical Definition of Income and Poverty

Joseph Antos	Thomas Juster	Paul Smith
John Bickerman	Alfred Kahn	Lawrence Summers
Alan Blinder	Kathryn Lavriha	Joan Turek-Brezina
William Birdsall	Sar Levitan	Michael Ward
Edward Budd	Joan Loeff	Daniel Weinberg
John Coder	Bette Mahoney	Arno Winard
Ann Draper	Mollie Orshansky	Edward Wolff
David Ellwood	Dan Radner	Kimberly Zieschang
Peter Gottschalk	Richard Rinkunas	Gabrielle Lupo
Christopher Jencks	Barbara Selfridge	<i>Larry Cahoon</i>

IV. Experts on Poverty Among Minorities

Charles Betsey	William T. Liu
Roberto Bueso-Rapalo	Siobhan Oppenheimer-Nicolau
Leo Estrada	Clara E. Rodriguez
Angelo Falcon*	Gary Sandefur
Robert Hill	Margaret Simms

V. Other Experts in Economics and Demography

Robert Flanagan	Sara Nerlove	James Smith
Jeanne Griffith	Randy Norsworthy	Al Tella
Marvin Koters	Walter Oi	Ben Wattenberg
Martin Lefkowitz	Dave O'Neill	Carolyn Weaver
Leslie Lenkowsky	June O'Neill	Murray Weitzman
Susan Mayer	Robert Ortner	Finis Welch
Kenneth McLennan	Albert Rees	James Wetzel
Robert Michael	Harry Scarr	<i>Judy Earle</i>

VI. Bureau Executive Staff, Congressional Liaison, and Administrative Support Staff

John Keane	Emma Moreno	Earle Gullins
C.L. Kincannon	Katharine Newman	Mary Henson
William Butz		Katherine Italiano
Charles Waite		Eleanor Baugher
		Sandra Morris

List of Participants by Affiliation

CONFERENCE ON THE MEASUREMENT OF NONCASH BENEFITS

Williamsburg, Virginia
December 12-14, 1985

Aaron, Henry (discussant)	Brookings Institution
Burtless, Gary	Brookings Institution
Michael, Robert	National Opinion Research Center
Smith, James	Rand Corporation
Bawden, D. Lee	Urban Institute
O'Neill, June (discussant)	Urban Institute
Ruggles, Pat	Urban Institute
Sawhill, Isabel	Urban Institute
Rees, Albert (discussant)	Sloan Foundation
Kosters, Marvin	American Enterprise Institute
Wattenberg, Ben	American Enterprise Institute
Weicher, John	American Enterprise Institute
Lenkowsky, Leslie	Institute for Educational Affairs
Kondratas, Anna	Heritage Foundation
Weaver, Carolyn	Hoover Institute
Chiswick, Barry (author)	University of Illinois at Chicago
Welch, Finis	Unicon Research Corp.
Ward, Michael (author)	Unicon Research Corp.
Hill, Robert B.	Bureau of Social Science Research
Eargle, Judy	E. H. Pechan, Consultants
Bueso-Rapalo, Roberto	Vice President, Banco de Occidente
Levitan, Sar	Center for Social Policy Studies
Joe, Tom	Center for Study of Social Policy
Greenstein, Robert	Center on Budget and Policy Priorities
Bickerman, John	Center on Budget and Policy Priorities
McLennan, Kenneth	Committee for Economic Development
Spohn, Roberta	N.Y. City Dept. of Aging
Smith, Paul	Children's Defense Fund
Amidei, Nancy	Former Director of Food Research Action Center
Draper, Ann	Economist, AFL/CIU
Bass, Gary D.	OMB Watch
Lavrha, Kathryn	United States Catholic Conference
Warach, Bernard	Jewish Association for Services for the Aged
Lefkowitz, Martin	U.S. Chamber of Commerce
Andrews, Emily	Employee Benefits Research Institute
Falcon, Angelo	Institute for Puerto Rican Policy
Oppenheimer-Nicolau, Siobhan	Hispanic Policy Development Project
Simms, Margaret	Editor, Review of Black Political Economy
Betsey, Charles	National Academy of Sciences
Van Lane, Barry	National Governors' Association
Messinger, Ruth	N.Y. City Council Member
Orshansky, Mollie	Consultant
Weitzman, Murray	Independent Sector
Danziger, Sheldon	IRP/Univ. of Wisconsin
Smolensky, Eugene (discussant)	IRP/Univ. of Wisconsin
Sandefur, Gary	IRP/Univ. of Wisconsin

Gottschalk, Peter
Plotnick, Robert
Watts, Harold
Kahn, Alfred
Paglin, Morton

Mayer, Susan
Ellwood, David (author)
Summers, Lawrence (author)
Clarkson, Kenneth (discussant)
Juster, Thomas
Birdsall, William
Smeeding, Tim
Ol, Walter
Wolff, Edward
Blinder, Alan (discussant)

Jencks, Christopher
Starr, Paul
Flanagan, Robert
Liu, William T.
Browning, Edgar (discussant)
Olsen, Edgar
Nancy and Richard Ruggles
Estrada, Leo
Rodriguez, Clara E.
Haber, Sheldon

Budd, Edward C.
Hoagland, William
Higgins, Kathryn
Atkins, Larry
Baker, Donald
Knettel, Anthony
Wallach, Harold
Primus, Wendell (discussant)
Fernandez, Lillian
Wyatt, Millard

Omas, George
Levy, Michael
Williams, Robertson (author)
Gordon, Nancy
Cullinan, Paul
Peskin, Janice
Hanushek, Eric (author)
Chelmsky, Eleanor
Cordray, David
Scarborough, William

Miller, Judith
Reilly, Thomas
Griffith, Jeanne
Rimkus, Richard
Antos, Joseph

IRP/Bowdoin
IRP/Univ. of Washington
Columbia
Columbia
Portland State Univ.

Northwestern
Harvard
Harvard
Univ. of Miami
Univ. of Michigan
Univ. of Michigan
Univ. of Utah
Univ. of Rochester
New York University
Princeton

Princeton
Princeton
Stanford
Univ. of Illinois at Chicago
Texas A. & M.
Univ. of Virginia
Yale
UCLA
Fordham Univ.
George Washington Univ.

Pennsylvania State Univ.
Senate Budget Committee
Senate Labor & Human Resources Committee
Deputy Staff Dir., Senate Spec. Comm. on Aging
House Education & Labor Committee
Professional Staff, House Select Comm. on Aging
Principal Statistician, House Select Comm. on Aging
House Ways & Means Committee
House Subcomm. on Census and Population
House Subcomm. on Census and Population

House Subcomm. on Census and Population
Joint Economic Committee
Congressional Budget Office
Congressional Budget Office
Congressional Budget Office
Congressional Budget Office
Congressional Budget Office
General Accounting Office
General Accounting Office
General Accounting Office

General Accounting Office
General Accounting Office
Congressional Research Service
Congressional Research Service
Council of Economic Advisers

Lupo, Gabrielle
Selfridge, Barbara
Mahoney, Bette
Weinberg, Dan
Turek-Brezina, Joan

Fisher, Gordon
Moyer, Eugene
Loeff, Joan
Radner, Dan
Vaughan, Denton
Bavler, Richard
Meskin, Steve
Bickel, Gary
Burke, Paul
Jacobs, Eva

Zieschang, Kimberly
Salter, Jean
Nerlove, Sara

Commerce

Ortner, Robert
Scarr, Harry

Census

John Keane
Louis Kincannon
William Butz
Charles Waite
Al Tella
Roger Herriot
Gordon Green
James Wetzel
Randy Morsworthy
Larry Cahoon

Jack McNeil
John Coder
Arno Winard
Enrique Lamas
Paul Ryscavage
Emma Moreno
Kate Newman
Dave O'Neill

Earle Gullins
Mary Henson
Katherine Italiano
Eleanor Baugher
Sandra Morris

Office of Management and Budget
Office of Management and Budget
Defense Department
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HHS/ASPE
HHS/ASPE
HHS/SSA
HHS/SSA
HHS/SSA
SSA (Office of Energy Assistance)
HHS/HFCA
USDA/FNS
HUD
BLS

BLS
BEA
National Science Foundation

Chief Economist
Office of Undersecretary for Economic
Affairs

Ms. Fernandez

PROGRAM EVALUATION
AND
METHODOLOGY DIVISION

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON D C 20548

November 26, 1985

Mr. Roger A. Herriot
Chief, Population Division
Bureau of the Census
Department of Commerce

Dear Mr. Herriot:

During our recent hearing before the Subcommittee on Population and Census, I began to describe some thinking we had been doing about your upcoming conference on the measurement of noncash benefits. Unfortunately, the time available was too short for me to present my whole line of reasoning, so I thought it might be useful to you if I expanded here on my oral comments.

As you may have gathered from the hearing, we do have some doubts about the appropriateness of a technical conference given what the Bureau's stated and implied objectives for the conference appear to be. Before describing these worries, let me be clear that I am strongly in favor of conferences as a valuable forum for exchanging ideas and as a way of gaining a sense of participant sentiments on important topics. As the diverse collections of individuals you have invited confront the topics on your agenda, the issues, perspectives, and needs for further developmental research activity should come into sharper relief. I am sure that on this we do not disagree. I think that our points of departure reside in differential expectations for what can be achieved through a technical conference. While I believe the conference is very likely to open up the scope of the conceptual, operational, and computational concerns already raised, not all of the concerns that we enumerated in our October 31 testimony can be treated adequately in such a format. Put simply, our differences reside, I believe, in what we think it is possible to achieve from a conference: my expectations are more modest than yours.

The basis for this judgment stems from a reexamination of the 52 conceptual, operational, and computational concerns we enumerated. After hearing you and Gordon Green say that the Bureau of the Census hopes to achieve consensus on issues related to the measurement of poverty at your December conference, we revisited our list of 52 concerns and asked ourselves which of the 52 could in fact be appropriately addressed via a consensus

of opinion? (See Tables 1-3 of my October 31 statement.) In our judgment 27 of the 52 concerns are the type which might be appropriate for resolution on a consensus-of-opinion basis; on the other hand, we think 25 of the 52 could not be well addressed at a conference without much more preliminary technical work (their current technical development is simply insufficient). Of course, the presenters you have invited may unveil new technical information that is relevant; judging from the body of literature we have examined, however, I think this is highly unlikely. We have found no comprehensive assessments that shed light on these highly technical issues.

Focusing, then, on the 27 concerns which could be susceptible to resolution on a consensus basis, I believe that in most cases -- 21 of the 27 -- resolution would nevertheless be unlikely at the December conference. One reason for this is that, among the 21, there exist concerns which, although they don't fall into the "insufficient technical development" category, they would require expert technical opinion. Hence laypersons at the conference might find it difficult to make an informed judgment, so meaningful consensus would be hard to come by. One example from this class of concerns is whether the "normal expenditures" approach is an adequate measure of utility.

The second reason is that, for other concerns among the 21, it would not be fair to decide them on a consensus-of-opinion basis at the conference because they are most appropriately resolved by a much broader mandate (i.e., a wider sampling of majority and minority opinion). One example from this class of concerns is what should be included in the definition of income, given a particular threshold level. The problem here is that the conference has been designed to bring primarily technical experts together to discuss a range of issues related to the measurement of poverty.

So in summary, many of the 21 issues would be appropriately addressed by a group of technical experts but probably could not be meaningfully resolved. Others would require a broader-based hearing than a conference. Thus, we see some danger in seeking consensus from individuals which may over or underrepresent a particular group (technical or non-technical). What this means is that if consensus were achieved at the conference, the representativeness of the consensus group and the meaningfulness of what was agreed would need to be examined with regard to either the technical or the political issues, to establish the credibility of that consensus.

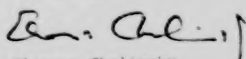
As a final point, given that relatively scant technical work has been done to date on many of these concerns, the possibility clearly exists that as yet undiscovered problems may mar apparently trouble-free areas. The conference appears to be well suited to generating an additional list of factors that warrant consideration. Further, while it may be nice to winnow the number of issues by gaining a consensus to drop certain benefit

areas or valuation methods that suffer from many problems (either, conceptual, operational, or computational), in my judgment this would be unwise for at least two reasons. First, as I mentioned at the hearing, some of the most difficult problems associated with, for example, medical benefits, are likely to be applicable to other benefit areas that have not been examined (e.g., "perks" for executives). Second, since only a few of the many potential benefit areas have been examined to date, solving the difficulties in fairly well known areas could, in the long run, facilitate solving the same general problems associated with other, yet to be examined, benefit areas. So in our view, it would be premature at this point to attempt via a conference either to determine the severity of the technical concerns or to decide their most appropriate resolution. To do so would be to substitute consensus building at a conference for the wider political and technical agreements that are needed.

Let me repeat what I stated earlier: I do not in any way minimize the importance of the upcoming conference. On the contrary, this is a rare and exciting opportunity to capitalize on the skills and knowledge of a wide array of speakers, discussants, and participants. Again, my cautions are addressed rather to your expectations about consensus at the conference and its meaningfulness for resolving technical issues and concerns. But I do believe that useful guidance, new issues, and healthy confrontations of opinion (depending on how the audience is constituted) are reasonable things to expect. Indeed, we are enormously looking forward to the deliberations at Williamsburg.

With kind regards,

Sincerely yours,



Eleanor Chelmsky
Director

cc: Ms. Lillian Fernandez
Staff Director, House Committee
on Post Office and Civil Service
Mr. Gordon Green
Bureau of the Census